

Comprehensive Annual Financial Report of the City of Birmingham, Michigan as prepared by the Department of Finance

June 30, 2003

City Commission

Donald F. Carney Jr., Mayor
Rackeline Hoff, Mayor Pro Tem
Thomas McDaniel, Commissioner
Dianne M. McKeon, Commissioner
Scott Moore, Commissioner
Julie Plotnik, Commissioner
Gordon Thorsby, Commissioner

City Manager

Thomas M. Markus

Director of Finance

B. Sharon Ostin

City of Birmingham, Michigan

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City of Birmingham, Michigan

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Introductory Section

November 12, 2003

To the Honorable Mayor and City Commission
City of Birmingham
Birmingham, Michigan 48012

With this letter, we transmit the City of Birmingham's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This report has been prepared pursuant to, and in compliance with State statutes, which require the City to publish within six months of the close of each fiscal year a complete set of financial statements in compliance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards.

The financial statements have been prepared by the City's Finance Department for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties. Management assumes full responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

The City of Birmingham's financial statements have been audited by Plante & Moran, PLLC. The purpose of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Birmingham's financial statements for the year ended June 30, 2003 are fairly presented in conformity with GAAP. Plante & Moran's report is presented as the first component of the financial section of this report.

The independent audit of the City's financial statements was part of a broader, federally mandated "single audit." The single audit is designed to meet specific requirements of federal grantor agencies. These requirements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The independent auditor's reports related specifically to the single audit are published separately.

This letter is designed to introduce the financial report and provide information that would be useful in assessing the City's financial condition (particularly information about future resources and obligations). In addition, the financial statements include a narrative introduction, overview, and analysis in the form of a management's discussion and analysis (MD&A), which should be read in conjunction with this letter.

City Location and Character

The City of Birmingham, incorporated in 1933, is located in the southeastern portion of Oakland County, encompasses an area of approximately 4.73 square miles, and is approximately 20 miles north of downtown Detroit. This year, Birmingham celebrates the 70th anniversary of its incorporation as a home-rule city. The City operates under the Commission-Manager form of government. The seven commission members, one of whom serves as mayor, are elected for four-year overlapping terms on a non-partisan basis. The City Commission is responsible, among other things, for passing ordinances, adopting the budget, and appointing advisory board and commission members. The City Manager is responsible for carrying out the policies and ordinances of the City Commission and for overseeing the day-to-day operations of the City. The City Commission appoints the City Manager and City Clerk, who reports, as do all other department heads, to the City Manager.

Throughout its history, Birmingham has enjoyed a high level of citizen involvement, which has contributed to the high quality of life in the community. Residents are elected or appointed to serve on a variety of commissions, committees, councils, and boards. Residents and officials alike volunteer their time and talent to support various projects to benefit the community.

Located in the heart of Oakland County, one of the wealthiest counties (per capita income) in the country, Birmingham is an affluent city and is the hub of the area. Its downtown is filled with shops, art and antique galleries, restaurants, and movie theaters, and is also a center for real estate, accounting, finance, insurance, legal, and other services. The City is a favorite destination for visitors throughout the Metro area. The City currently has in excess of 200 retail establishments and over 520 service enterprises. Named one of the country's "Top 20 Most Walkable Communities," the City provides residents with a quality lifestyle including beautiful residential neighborhoods, excellent schools, and all the social and cultural opportunities that come with a thriving pedestrian-friendly downtown. The Birmingham Principal Shopping District, established in 1993, provides leadership in marketing, advertising, and promotion of the downtown.

The City provides a wide range of city services, including police and fire protection; the construction and maintenance of roads and other infrastructure; recreational activities and cultural events; community planning, zoning, and code enforcement; refuse collection, water-receiving, and sewer disposal services. Birmingham is also within commuting distance of the major employment areas of the greater Detroit metropolitan area. Located within the City are the Rouge River, Quarton Lake, and rolling landscape, which attract builders and homeowners.

Factors Affecting Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the environment in which the City operates.

Local Economy - The largest single revenue source is property taxes. Historically this revenue source has been stable and is expected to remain so into the foreseeable future. The City also continues to have a strong, diversified tax base as the 10 largest taxpayers represent approximately 7.3 percent of total assessed valuation. A total of 78.2 percent of the tax roll is residential. The remaining 21.8 percent is nonresidential, composed of 17.3 percent commercial, 0.70 percent industrial and 3.78 percent personal property. The City is approximately 98 percent developed. As a result of significant reinvestment in the City's residential and commercial districts, the City has experienced a 13.7 percent annual growth rate in the property tax base since fiscal 1998. The fiscal year 2002-2003 tax levy was reduced by .625 mills from the prior fiscal year, primarily as a result of redevelopment within the City.

The region, which includes the City of Birmingham and the surrounding area of Oakland County, has a labor force of approximately 682,500. It is anticipated that, after declining for the past two years, job growth will increase by approximately 1 percent for 2003 and 2.4 percent for calendar year 2004. The June 2003 unemployment rate of 3.1 percent for the City is well below the state and national unemployment rates of 7.2 percent and 6.4 percent, respectively, for the same period. The City continues to attract businesses of national and international importance. The overall occupancy rate of approximately 89 percent is expected to continue to increase as independent retailers continue to open businesses such as high-end fashion and gift stores to fill the void left by the closing of the Jacobson's store last year.

Currently the State is in an economic slump. Approximately 7 percent of the City's total revenues come from sales tax that is collected by the State and shared with local units of government. Because of reductions in statewide collections of income tax and single business tax, the State government has retained a higher portion of the sales tax in order to balance its own budget. This has resulted in a decrease in state-shared revenue in the current year, and further reductions are expected for the near future.

The City has maintained a strong financial position as a result of significant gains in property tax receipts, which are generated by the continued strength of the local economy and management's prudent budgeting practices.

Accounting and Budgetary Control

The City's comprehensive internal controls framework has been designed to protect the City's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of financial statements in conformity with GAAP. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the financial statements will be free from material misstatement.

The annual budget serves as the primary financial management tool for the City. From November to February, the City Manager and department heads develop and review departmental and activity budgets. At the “Long-Range Planning Session” in January, the City Commission gives feedback and communicates its priorities and the direction in which it wishes to proceed. At this meeting, a “five-year financial forecast” is also presented and serves as the framework from which the budget is developed. The City Manager, also in a public forum on or before the first Monday in May, presents the proposed budget in line-item detail to the City Commission for review and approval.

The City of Birmingham’s budget is a plan that represents the City Commission’s commitment to provide cost-effective, efficient, and quality services to its residents. The annual budget is adopted in accordance with legal requirements governed by Chapter 7 of Birmingham’s City Charter and the Uniform Budgeting Act, State of Michigan, P.A. 621 of 1978. The City adopts its budget by budgetary center, which is the level of classification detail at which, by law, expenditures cannot exceed appropriations. Budget transfers between budgetary centers or from fund balance are periodically approved by the City Commission.

The General Fund, Special Revenue Funds, and Debt Service Funds are under formal budgetary control. Unexpended appropriations lapse at year end, while open purchase orders and contract encumbrances are immediately reappropriated to the subsequent fiscal year.

Long-term Financial Planning - Because the City is at a mature stage in its life cycle, it has significant infrastructure needs that have not been present historically. Several years ago, the City determined that meeting these infrastructure needs would be the most significant financial challenge over the next several years. In fiscal year 1999-2000, a 10-year sewer improvement program with an estimated cost of \$32 million was begun to abate basement flooding, construct relief sewers, and repair or replace existing sewers in critical structural condition. Of the \$32 million, \$11.6 million has been earmarked for joint sewer relief projects with other communities: the North Arm Project for the Twelve Towns Drain, the George W. Kuhn Drain Project, and the Acacia Park Relief Drain.

The City of Birmingham is in the eighth year of a \$15 million multi-year program for water main construction and restoration. Improvements totaling \$3 million have been incurred and were financed with revenue bonds issued in 1993. The remaining \$12 million is supported through a voter-approved property tax levy. The levy, which began in fiscal year 1997-1998, will continue at the estimated annual rate of \$1 million.

In November 2001, City voters authorized the City of Birmingham to issue general obligation unlimited tax bonds in an amount not to exceed \$25 million. The bonds may be sold in one or more issues. The proceeds from the bond sales will be used to implement the Recreation Master Plan. The Recreation Master Plan outlines the City’s long-range goals for the acquisition and/or enhancement of parkland and recreational facilities. The first bond issue in the amount of \$15.7 million was sold in December 2002 and a portion of the proceeds was used to purchase the Barnum Facility and to partially fund the dredging of Quarton Lake. A study is being performed to determine the best use of the Barnum Facility, with consideration being given to long-term additional ongoing costs involved with staffing, operating, and maintaining the new facility.

Cash Management Policies and Practices - Temporarily idle cash from the City's various funds is invested through management of a common pooled cash and investment account. Investment maturities are timed to meet the City's general liquidity needs. Investment instruments generally consisted of U.S. Treasury bills and notes, U.S. Treasury stripped coupons, certificates of deposit, and state-approved pooled investment funds. Yields on investments ranged from .985 percent to 1.711 percent during 2003. Total interest income generated amounted to approximately \$674,400 (excluding Pension Trust Fund earnings and earnings on funds not directly managed by the City).

Risk Management - The City is a member of the Michigan Municipal League Liability and Property Pool, which is a self-insurance program for general and auto liability, auto physical damage, and property loss claims. The City accounts for its insurance and self-insurance program in an Internal Service Fund and charges out to other funds their respective share of insurance costs. Additional information on the City of Birmingham's risk-management activity can be found in Note 9 of the notes to the financial statements.

Pension and Other Postemployment Benefits - The City of Birmingham Employees' Retirement System is a single-employer defined benefit pension plan, which covers all full-time employees of the City. Required contributions are determined as a part of an annual actuarial valuation. As of June 30, 2002, the ratio of present assets to actuarial accrued liabilities was 138.3 percent. The City of Birmingham also provides postretirement health care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 137 retired employees receiving these benefits, which are advance-funded by employer contributions expressed as a percentage of annual covered payroll at actuarially determined rates. Additional information pertaining to the City's pension and postemployment benefits can be found in Notes 10 and 11 of the notes to the financial statements.

Awards and Acknowledgements

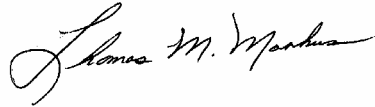
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Birmingham for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. This was the thirteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City has also received the GFOA's Award for Distinguished Budget Presentation for its annual budget for the fiscal year beginning July 1, 2002. This was the thirteenth consecutive year that the City has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report was made possible by the dedicated service of the entire staff of the Finance Department. Each of these individuals has our sincere appreciation for the contributions made in the preparation of this report, as well as all additional individuals who assisted in this effort. Appreciation is also expressed to the City Commission for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,

A handwritten signature in black ink, reading "Thomas M. Markus". The signature is written in a cursive style with a large, stylized initial 'T'.

Thomas M. Markus
City Manager

A handwritten signature in black ink, reading "B. Sharon Ostin". The signature is written in a cursive style with a large, stylized initial 'B'.

B. Sharon Ostin
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Birmingham,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

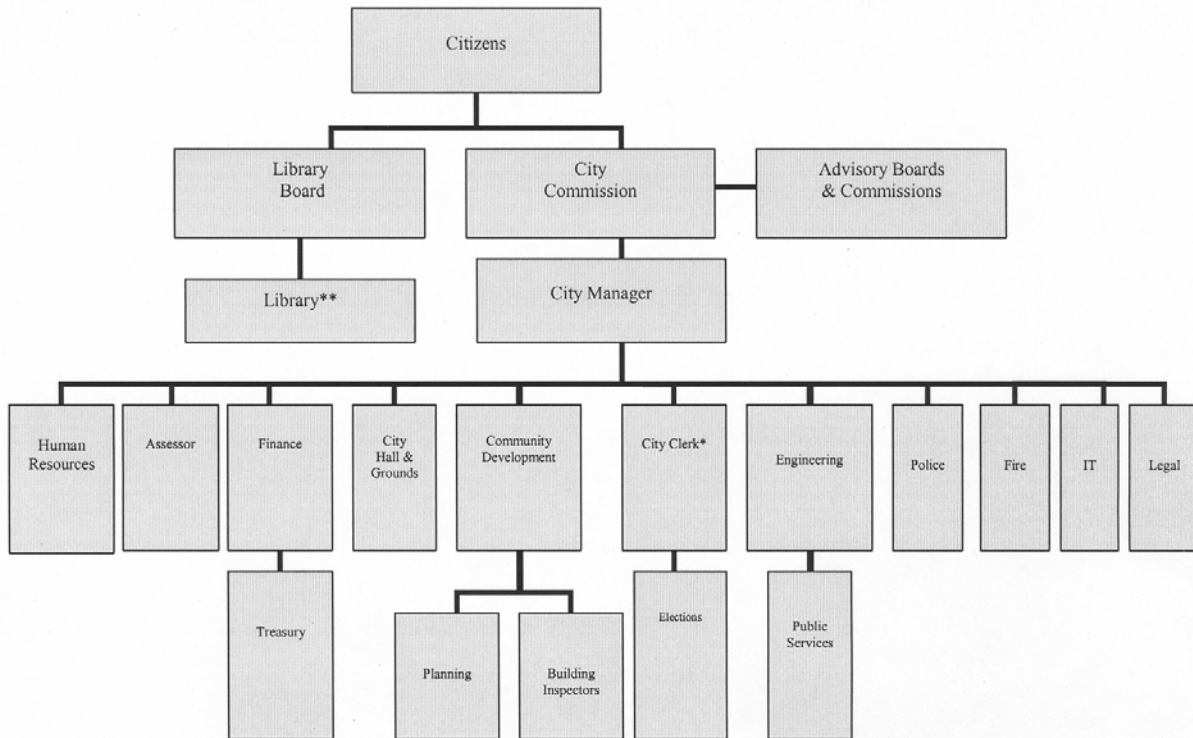


President

Executive Director

Birmingham

2003-2004 Organization Chart



- * Appointed by the City Commission; reports to the City Manager.
* * The City shall provide tax levy of not less than $\frac{1}{2}$ mill and not more than $1\frac{3}{4}$ mills.

Financial Section

Independent Auditor's Report

To the Honorable Mayor
and City Commission
City of Birmingham, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Birmingham, as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Birmingham's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Birmingham, as of June 30, 2003, and the respective changes in financial position and cash flows, and the respective budgetary comparisons for the General Fund and the Major and Local Street Funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor
and City Commission
City of Birmingham, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Birmingham's basic financial statements. The accompanying introductory section, other supplemental information, and statistical section as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining statements presented in the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, budgetary comparison schedules, and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As described in Note 13, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002. In adopting this statement, the financial statements now include a management's discussion and analysis, government-wide full accrual financial statements, and reorganized fund-based statements. In addition, the governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003 on our consideration of the City of Birmingham's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

September 26, 2003

Management's Discussion and Analysis

City of Birmingham, Michigan

Management's Discussion and Analysis

The City of Birmingham's management's discussion and analysis (MD&A) is designed to provide an objective and easy-to-read analysis of the City's financial activities based on current information and facts. The MD&A is intended to serve as an introduction to the City's basic financial statements. Specifically, this information is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues.

This is the first year the City has presented its financial statements in accordance with the new reporting model required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). This new reporting model significantly changes not only the presentation of financial data, but also the manner in which the information is recorded.

The information contained within this MD&A is only a component of the entire financial statements. Readers are encouraged to read it in conjunction with the transmittal letter, which can be found on pages i-vi of this report, and the City's financial statements, which follow this section.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2003:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$122,000. The City reacted by reducing or eliminating certain non-essential programs and new personnel requests and by delaying filling certain vacant positions.
- Total net assets related to the City's governmental activities increased by approximately \$5,200,000, with approximately \$5,060,000 of that amount invested in capital assets.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,165,479, or 19 percent of total General Fund expenditures and transfers out.
- In November 2002, the City sold \$15,700,000 in general obligation bonds, which began the City's long-term investment in park and recreation facilities and improvements.

Overview of the Financial Statements

In addition to the MD&A (this section), the City's annual report consists of three other parts: (1) basic financial statements, (2) required supplementary information, and (3) an optional section that presents combining statements for non-major governmental, internal service, and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City:

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Statements - These statements provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer term view of the City's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide financial statements and include the following:

- The statement of net assets presents information pertaining to all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Birmingham that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community and economic development, recreation and culture, and interest on long-term debt. The business-type activities of the City include water and sewer-disposal systems, automobile parking, and municipal golf courses.

The government-wide financial statements include not only the City of Birmingham itself (known as the primary government), but also the legally separate Baldwin Public Library and the Principal Shopping District, for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements - The remaining statements are fund financial statements. The City of Birmingham, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the City's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. The City's three fund financial statements include the following:

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, offer short- and long-term financial information.

- In fact, the City's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- The City also utilizes Internal Service Funds (the other kind of proprietary fund) to report activities that provide supplies and services to the City's other programs and activities, such as the City's Equipment Fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included with governmental activities in the government-wide financial statements.

Fiduciary Funds - Fiduciary funds provide information about resources held for the benefit of parties outside the government, such as the retirement plan for the City's employees in which the City acts solely as a trustee or agent. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Notes to the Financial Statements - The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information. This information includes budgetary comparisons for the City's General Fund and Major Special Revenue Funds. It also includes combining statements for the City's nonmajor governmental funds, Internal Service Funds, and fiduciary funds. Immediately following the supplemental information is a statistical section, which provides certain information pertaining to general government revenues, expenditures, tax revenues and collections, demographic, and other statistical data.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole

Net Assets - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Birmingham, assets exceeded liabilities by \$104.5 million at the close of the fiscal year ended June 30, 2003. The largest portion of the City's net assets (62 percent) reflects its investment in capital assets. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City totaled \$5.5 million and are reported in the governmental activities. These net assets have limits on their use that are externally imposed by restrictions such as enabling legislation or bond covenants. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, building operations, or debt-service activities. The remaining unrestricted net assets may be used to meet the City's ongoing operations.

Since this is the first year the City has presented government-wide financial statements, comparisons to the prior year have not been presented. In future years, when prior year information is available, a comparative analysis of government-wide data will be included.

The following table shows, in a condensed format, the net assets of the City of Birmingham as of June 30, 2003:

Table A-1
City of Birmingham's Net Assets

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 31,214,508	\$ 28,098,919	\$ 59,313,427
Capital assets	50,248,271	67,844,074	118,092,345
Total assets	\$ 81,462,779	\$ 95,942,993	\$ 177,405,772
Current liabilities	\$ 4,209,891	\$ 6,481,812	\$ 10,691,703
Long-term liabilities	21,115,964	41,137,289	62,253,253
Total liabilities	\$ 25,325,855	\$ 47,619,101	\$ 72,944,956
Net assets:			
Invested in capital assets -			
Net of related debt	\$ 34,770,767	\$ 28,526,058	\$ 63,296,825
Restricted	5,472,159	-	5,472,159
Unrestricted	15,893,998	19,797,834	35,691,832
Total net assets	\$ 56,136,924	\$ 48,323,892	\$ 104,460,816

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

As shown in Table A-2 (changes in net assets), the City's total revenues were approximately \$42 million for the current year, of which 47 percent was obtained from property taxes. Fees charged for services accounted for another 39 percent of the total, with the balance of the City's revenues primarily being derived from State and federal sources. The total cost of all programs and services at June 30, 2003 was \$34.5 million. City expenses cover a wide range of services. For the current fiscal year, about 41 percent of the City's expenses related to public safety and public works.

Net assets increased by \$5.2 million for the City of Birmingham's governmental activities. This increase accounted for 70 percent of the total growth in net assets for the year. Net assets for business-type activities increased by \$2.3 million during the year, accounting for the remaining 30 percent increase. The majority of this increase is attributable to improvements to the water- and sewer-distribution systems.

The following analysis highlights the changes in net assets for the year ended June 30, 2003:

Table A-2
Changes in City of Birmingham's Net Assets

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 4,584,342	\$ 11,838,129	\$ 16,422,471
Operating grants and contributions	1,305,361	-	1,305,361
Capital grants and contributions	1,454,135	230,740	1,684,875
General revenue:			
Property taxes	15,883,161	3,955,796	19,838,957
State-shared revenue	2,017,629	-	2,017,629
Unrestricted investment earnings	390,267	265,363	655,630
Miscellaneous	59,061	-	59,061
Total revenue	25,693,956	16,290,028	41,983,984

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Table A-2
Changes in City of Birmingham's Net Assets (Continued)

	Governmental Activities	Business-type Activities	Total
Program Expenses			
General government	\$ 2,985,800	\$ -	\$ 2,985,800
Public safety	9,261,427	-	9,261,427
Public works	5,037,138	-	5,037,138
Community and economic development	1,379,875	-	1,379,875
Recreation and culture	1,235,909	-	1,235,909
Interest on long-term debt	686,078	-	686,078
Water and sewer	-	9,785,225	9,785,225
Automobile parking	-	3,088,100	3,088,100
Golf courses	-	1,009,814	1,009,814
Total program expenses	20,586,227	13,883,139	34,469,366
Excess before transfers	5,107,729	2,406,889	7,514,618
Transfers	131,720	(131,720)	-
Increase in Net Assets	5,239,449	2,275,169	7,514,618
Net Assets - June 30, 2002	50,897,475	46,048,723	96,946,198
Net Assets - June 30, 2003	<u>\$ 56,136,924</u>	<u>\$ 48,323,892</u>	<u>\$ 104,460,816</u>

Financial Analysis

Governmental Funds - The analysis of the City's major funds begins on page 16, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. As noted earlier, the City of Birmingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for fiscal year 2002-2003 include the General Fund, Major and Local Street Funds, and the Capital Projects Fund.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

The General Fund is the main operating fund of the City and accounts for most of the City's governmental services, the most significant of which include police and fire. Expenditures for police and fire services incurred during the year totaled \$8.6 million. The General Fund is primarily supported by property taxes (66 percent) and intergovernmental revenues (10 percent), which consist primarily of state-shared revenues. A measure of the General Fund's liquidity can be made by comparing unreserved fund balance and total fund balance to total fund expenditures. At year end, unreserved fund balance is 19 percent and total fund balance is 23 percent of total General Fund expenditures, including transfers out.

The Major Street Fund is used to account for construction, maintenance, and other authorized operations of the City's major streets (as contrasted with the neighborhood streets, which are maintained by the Local Street Fund). The Major and Local Street Funds derive their revenues primarily from gas- and weight-tax distributions from the State and operating transfers from the General Fund. The fund balances of the Major and Local Street Funds of \$3 million and \$1 million, respectively, are restricted primarily for road improvements.

The Capital Projects Fund is used to account for earmarked revenue set aside for major public improvements. Revenue sources include General Fund transfers and proceeds of debt issued. The total fund balance of the Capital Projects Fund at June 30, 2003 is \$10.8 million. Of this amount, \$6.0 million represents bond proceeds to be used for park and recreational purposes, while \$1.9 million of the balance has been earmarked for the Woodward Avenue Median Project.

Proprietary Funds - In addition to governmental funds, the City uses proprietary funds, which provide similar type of information as that contained in the government-wide financial statements, but in more detail. The Water and Sewage Disposal Funds, Automobile Parking System Fund, Municipal Golf Courses Fund, and Internal Service Funds make up the City's proprietary funds. Unrestricted net assets of the proprietary funds were approximately \$20 million at year end. Of this amount, approximately \$15 million is attributable to the water-supply and sewage disposal systems.

For fiscal year 2002-2003, rate increases of 6.4 percent and 14.5 percent were approved for the Water and Sewer Funds, respectively, resulting in the increase in charges for services. The rate increases were necessary to cover increased charges imposed by the Detroit Water and Sewerage Department, increased maintenance costs for the three Combined Sewer Overflow (CSO) basins, increased City operating costs for sewer maintenance, and to offset the reduction in interest income.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

The City amended its budget to account for events and changes that occurred during the course of the year. A \$110,000 reduction to intergovernmental revenue was made as a result of reductions by the State to State-shared revenues. Interest revenue was reduced by \$420,000 as a result of a significant decline in interest rates and investment income. The Federal Communications Commission decision to exclude online revenue from cable franchise fee calculations and an anticipated decline in building activity resulted in an \$80,000 amendment to revenues received from licenses and permits. Actual revenues received for licenses and permits, however, were \$40,932 greater than the original budget. Fines and forfeitures were reduced by \$230,000. This reduction was attributable to a reduction in parking fines and receipts from the 48th District Court. Actual receipts resulted in an additional \$144,144 decline in this revenue category from the amended budget. Additional revenues of \$148,577 were received in charges for services from the amended budget. The increased revenue was attributable to additional work performed by the Department of Engineering and Public Services on water and sewer projects.

Differences in expenditures between the original budget and the amended budget totaled \$699,472. Over the course of the year, the budget was amended several times, primarily for the following:

- Outstanding encumbrances at June 30 of the prior year were reappropriated so that they could be honored;
- Increases in appropriations to prevent budget overruns; and
- Changes in salaries and settled contracts

With these budget adjustments, actual expenditures were \$1,229,519 below final budget amounts.

Capital Assets and Debt Administration

Capital Assets - The City of Birmingham had \$118 million invested in capital assets (net of accumulated depreciation) at the end of the fiscal year. The City's investment in capital assets includes land, buildings, water and sewer lines, roads, highways and bridges, park facilities, and machinery and equipment. During the year, the City issued \$15.7 million in general obligation parks and recreation bonds for the acquisition of the Barnum/Beaumont property, a concept plan for Poppleton Park, and improvements to St. James Park, Booth Park, and Quarton Lake. Other major expenditures for capital assets during the year included the following:

- City sewer improvements and repairs under a 10-year program begun three years ago totaled \$2,844,990
- Water-main improvements and repairs totaling \$753,790
- Improvements to the City's streets and bridge replacement totaling \$2,282,490
- Automobile Parking System improvements totaling \$1,270,570, which included \$856,330 for improvements to the Pierce Street Parking Structure

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Long-term Debt - The City's total indebtedness as of June 30, 2003 is \$65,095,109. Of this amount, \$37,595,000 are general obligation bonds, which is an amount considerably below the debt limit of \$206,722,299. In addition, the City has contractual obligations totaling \$27,500,109. This amount represents the City's portion of Oakland County bonds related to three CSO abatement projects, the George W. Kuhn retention/treatment facility, the North Arm Project, and a meter- and interceptor-rehabilitation project in the Evergreen-Farmington Sewage-Disposal System.

As previously mentioned, the City issued \$15.7 million in parks and recreation general obligation bonds in November 2002. In 1993, the City issued \$3 million in water supply system revenue bonds maturing through July 1, 2008. These bonds were called during the year to offset a rate increase from the Detroit Water and Sewerage Department. The amount of debt outstanding at June 30, 2002 for the revenue bonds was \$1,400,000. During the year, the City also refinanced some of its existing debt to take advantage of favorable interest rates. The refinancings are expected to decrease future debt service payments by approximately \$1.1 million.

The City of Birmingham maintains an "AAA" rating from Standard & Poor's and Fitch and an "Aa1" rating from Moody's for general obligation debt. Additional information on the City's long-term debt can be found in Note 6 on pages 45 through 47 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2003-2004 budget was impacted by several negative economic factors. On the revenue side, declining retail sales and a slow state economy were anticipated to result in further decreases in state-shared revenues, while investment income was expected to decline as a result of lower interest rates. On the expenditure side, costs were expected to continue to escalate for health care and general liability insurances. At the same time, new building activity was expected to slow.

In order to maintain reserves within the established range and the City's operating millage at last year's rate (except for the .1131 mill increase required for the newly completed North Arm Drain), reductions totaling over \$1.2 million were made. The reductions were achieved by:

- Eliminating all out-of-state conferences;
- Postponing or eliminating certain non-essential capital outlay requests;
- Eliminating new personnel requests and delaying filling certain vacant positions;
- Reducing the historic survey study by \$275,000;
- Reducing or eliminating certain non-essential programs.

In addition, funding was not approved for any new outside agency requests, or increases for existing organizations above the rate of inflation.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

During the fiscal year, the fund balance in the General Fund decreased by \$242,587 to \$5 million. The decrease was required to provide for previously discussed adjustments. For fiscal year 2003-2004, a surplus of \$590,880 is expected to be generated. This will maintain the General Fund's fund balance at 22.3 percent of operating expenditures, which is well within the minimum established funding level of 10 percent of the general operating budget.

Slight increases of .0372 mills and .094 mills were also approved for the Baldwin Public Library operating levy and the refuse levy, respectively. The increase in the refuse levy provided for an anticipated 25 percent increase in the City's refuse contract. In addition, the debt levy was increased by .4605 mills as a result of additional debt service payments required to begin paying for the \$15.7 million parks and recreation bond issue.

The Detroit Water and Sewerage Department, which provides both water and waste-water treatment, proposed to pass along a 9 percent increase to its customers. As a result, a 4.4 percent rate increase was approved for the Sewer Fund, with no rate increase for the Water Fund. The City was able to maintain existing water rates by retiring the Water Fund's debt.

Request for Information

This financial report is designed to provide a general overview of the City of Birmingham's finances to the City's citizens, customers, investors, creditors, and others who are interested in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Birmingham's Finance Department, P.O. Box 3001, Birmingham, MI 48012.

Basic Financial Statements

City of Birmingham, Michigan

Statement of Net Assets June 30, 2003

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
Assets				
Cash and investments (Note 4)	\$ 22,791,487	\$ 20,838,532	\$ 43,630,019	\$ 2,618,569
Receivables - Net:				
Customers	127,456	2,495,925	2,623,381	-
Special assessments	451,193	-	451,193	57,834
Delinquent personal property taxes	188,382	-	188,382	-
Inventories	70,790	6,995	77,785	-
Prepaid costs and other assets	151,699	115,330	267,029	25,775
Due from other governmental units	1,164,032	110,715	1,274,747	51,742
Restricted assets (Note 7)	5,772,496	4,531,422	10,303,918	-
Capital assets - Net (Note 5)	50,248,271	67,844,074	118,092,345	2,837,333
Investment in joint venture - 48th District Court (Note 12)	496,973	-	496,973	-
Total assets	81,462,779	95,942,993	177,405,772	5,591,253
Liabilities				
Accounts payable	1,767,441	2,722,529	4,489,970	132,333
Accrued and other liabilities	702,474	898,509	1,600,983	129,980
Deferred revenue	278	125,375	125,653	57,834
Provision for uninsured losses and liabilities (Note 9)	466,342	-	466,342	-
Noncurrent liabilities (Note 6):				
Due within one year	1,273,356	2,735,399	4,008,755	-
Due in more than one year	21,115,964	41,137,289	62,253,253	-
Total liabilities	25,325,855	47,619,101	72,944,956	320,147
Net Assets				
Invested in capital assets - Net of related debt	34,770,767	28,526,058	63,296,825	2,837,333
Restricted:				
Major and Local Streets	4,021,264	-	4,021,264	-
Solid waste	751,190	-	751,190	-
Construction code activities	614,828	-	614,828	-
Other	84,877	-	84,877	-
Unrestricted	15,893,998	19,797,834	35,691,832	2,433,773
Total net assets	\$ 56,136,924	\$ 48,323,892	\$ 104,460,816	\$ 5,271,106

City of Birmingham, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,985,800	\$ 375,706	\$ -	\$ -
Public safety	9,261,427	1,485,747	107,466	-
Public works	5,037,138	472,759	1,117,571	655,261
Community and economic development	1,379,875	1,434,932	62,776	-
Recreation and culture	1,235,909	815,198	17,548	798,874
Interest on long-term debt	686,078	-	-	-
Total governmental activities	20,586,227	4,584,342	1,305,361	1,454,135
Business-type activities:				
Water and sewer	9,785,225	7,081,129	-	230,740
Automobile parking	3,088,100	3,693,419	-	-
Golf courses	1,009,814	1,063,581	-	-
Total primary government	<u>\$ 34,469,366</u>	<u>\$ 16,422,471</u>	<u>\$ 1,305,361</u>	<u>\$ 1,684,875</u>
Component units:				
Baldwin Public Library	\$ 3,079,148	\$ 611,214	\$ 63,653	\$ -
Principal shopping district	931,879	885,863	-	-
Total component units	<u>\$ 4,011,027</u>	<u>\$ 1,497,077</u>	<u>\$ 63,653</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year, as adjusted (Note 13)				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2003

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,610,094)	\$ -	\$ (2,610,094)	\$ -
(7,668,214)	-	(7,668,214)	-
(2,791,547)	-	(2,791,547)	-
117,833	-	117,833	-
395,711	-	395,711	-
(686,078)	-	(686,078)	-
(13,242,389)	-	(13,242,389)	-
-	(2,473,356)	(2,473,356)	
-	605,319	605,319	
-	53,767	53,767	-
(13,242,389)	(1,814,270)	(15,056,659)	-
-	-	-	(2,404,281)
-	-	-	(46,016)
-	-	-	(2,450,297)
15,883,161	3,955,796	19,838,957	2,293,838
2,017,629	-	2,017,629	86,718
390,267	265,363	655,630	44,268
59,061	-	59,061	-
131,720	(131,720)	-	-
18,481,838	4,089,439	22,571,277	2,424,824
5,239,449	2,275,169	7,514,618	(25,473)
50,897,475	46,048,723	96,946,198	5,296,579
\$ 56,136,924	\$ 48,323,892	\$ 104,460,816	\$ 5,271,106

City of Birmingham, Michigan

Governmental Funds Balance Sheet June 30, 2003

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and investments (Note 4)	\$ 5,527,584	\$ 2,915,719	\$ 1,004,476	\$ 5,396,239	\$ 911,092	\$ 15,755,110
Receivables - Net:						
Customers	487,869	-	10,672	-	260	498,801
Special assessments	8,550	-	369,426	73,217	-	451,193
Delinquent personal property taxes	188,382	-	-	-	-	188,382
Prepaid items and other assets	69,087	-	-	-	-	69,087
Due from other governmental units	835,027	135,967	57,030	132,613	3,395	1,164,032
Restricted assets (Note 7)	-	-	-	5,772,496	-	5,772,496
Inventories	-	50,516	20,206	-	-	70,722
Total assets	\$ 7,116,499	\$ 3,102,202	\$ 1,461,810	\$ 11,374,565	\$ 914,747	\$ 23,969,823
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 957,759	\$ 48,561	\$ 98,766	\$ 551,218	\$ 77,555	\$ 1,733,859
Accrued and other liabilities	451,448	6,090	9,235	-	1,125	467,898
Deferred revenue	644,777	-	380,096	73,217	-	1,098,090
Total liabilities	2,053,984	54,651	488,097	624,435	78,680	3,299,847
Fund Balances						
Reserved for:						
Encumbrances	214,721	968,172	825,901	847,738	2,450	2,858,982
Law and drug enforcement programs	-	-	-	-	72,349	72,349
Construction code activities	614,828	-	-	-	-	614,828
Prepays and inventory	67,487	50,516	20,206	-	-	138,209
Highway and street projects	-	2,028,863	127,606	-	-	2,156,469
Facility and park improvement projects	-	-	-	5,772,496	-	5,772,496
Debt service	-	-	-	-	10,078	10,078
Unreserved - Reported in:						
General Fund	4,165,479	-	-	-	-	4,165,479
Special Revenue Funds	-	-	-	-	751,190	751,190
Capital Projects Funds	-	-	-	958,701	-	958,701
Designated (Note 8)	-	-	-	3,171,195	-	3,171,195
Total fund balances	5,062,515	3,047,551	973,713	10,750,130	836,067	20,669,976
Total liabilities and fund balances	\$ 7,116,499	\$ 3,102,202	\$ 1,461,810	\$ 11,374,565	\$ 914,747	\$ 23,969,823

City of Birmingham, Michigan

Governmental Funds **Reconciliation of Fund Balances to the Statement of Net Assets** **June 30, 2003**

Balance Fund - Total Governmental Funds	\$ 20,669,976
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the governmental funds	47,861,737
--	------------

Allowance for uncollectible personal property taxes	(371,345)
---	-----------

Special assessment, parking fines, and other miscellaneous receivables are expected to be collected over several years, and are not available to pay for current year expenditures	1,097,811
--	-----------

Long-term liabilities are not due and payable in the current period and are not reported in the funds including related accrued interest	(22,275,062)
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Internal Service Funds are included as part of governmental activities	9,153,807
--	-----------

Net Assets - Governmental Activities	<u>\$ 56,136,924</u>
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City of Birmingham, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2003

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Property taxes and special assessments	\$ 14,066,321	\$ -	\$ 163,417	\$ 18,269	\$ 1,909,516	\$ 16,157,523
Licenses and permits	1,554,182	-	-	-	-	1,554,182
Federal grants	11,438	-	-	820,902	103,785	936,125
State sources	2,118,219	787,284	802,396	-	11,734	3,719,633
Charges for services	2,093,287	30,787	840	-	176,027	2,300,941
Fines and forfeitures	1,310,556	-	-	-	-	1,310,556
Use of money and property	174,080	35,601	40,927	110,788	17,947	379,343
Other	95,320	-	73,716	3,336	63,077	235,449
Total revenues	21,423,403	853,672	1,081,296	953,295	2,282,086	26,593,752
Expenditures						
Current:						
General government	4,462,205	-	-	-	-	4,462,205
Public safety	8,645,884	-	-	-	38,887	8,684,771
Public works	3,828,632	-	-	-	-	3,828,632
Highway and streets	-	1,025,493	1,049,146	-	-	2,074,639
Community and economic development	1,401,001	-	-	-	13,363	1,414,364
Solid waste disposal	-	-	-	-	1,316,938	1,316,938
Contributions	866,178	-	-	-	-	866,178
Capital outlay	-	1,687,579	594,912	11,079,467	-	13,361,958
Debt service	-	-	-	-	871,564	871,564
Total expenditures	19,203,900	2,713,072	1,644,058	11,079,467	2,240,752	36,881,249
Excess of Revenues Over (Under)						
Expenditures	2,219,503	(1,859,400)	(562,762)	(10,126,172)	41,334	(10,287,497)
Other Financing Sources (Uses)						
Transfers in	81,173	1,845,000	690,076	150,800	159,186	2,926,235
Transfers out	(2,543,263)	(190,076)	-	-	(61,176)	(2,794,515)
Bond issuance	-	-	-	15,700,000	-	15,700,000
Total other financing sources (uses)	(2,462,090)	1,654,924	690,076	15,850,800	98,010	15,831,720
Net Change in Fund Balance	(242,587)	(204,476)	127,314	5,724,628	139,344	5,544,223
Fund Balances - Beginning of year	5,305,102	3,252,027	846,399	5,025,502	696,723	15,125,753
Fund Balances - End of year	<u>\$ 5,062,515</u>	<u>\$ 3,047,551</u>	<u>\$ 973,713</u>	<u>\$ 10,750,130</u>	<u>\$ 836,067</u>	<u>\$ 20,669,976</u>

City of Birmingham, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds **\$ 5,544,223**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 13,555,635

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end 28,154

Bond issuance is not reported as financing sources on the statement of activities (15,700,000)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 350,000

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities (150,693)

Governmental funds report proceeds from sale; in the statement of activities, only the respective gain or loss is recognized (374)

Internal Service Funds are also included as governmental activities 1,612,504

Change in Net Assets of Governmental Activities **\$ 5,239,449**

City of Birmingham, Michigan

Proprietary Funds Statement of Net Assets June 30, 2003

	Water Supply System Receiving	Sewage Disposal System	Automobile Parking System	Golf Courses (Other Nonmajor Enterprise Fund)	Total	Internal Service Funds
Assets						
Current assets:						
Cash and investments (Note 4)	\$ 6,859,751	\$ 8,931,356	\$ 4,890,896	\$ 156,529	\$ 20,838,532	\$ 7,036,376
Receivables - Net - Customers	845,256	1,623,708	26,961	-	2,495,925	-
Due from other governmental units	-	110,715	-	-	110,715	-
Inventories	-	-	6,995	-	6,995	68
Total current assets	7,705,007	10,665,779	4,924,852	156,529	23,452,167	7,036,444
Noncurrent assets:						
Other assets	114	4,594	110,622	-	115,330	82,612
Restricted assets (Note 7)	444	4,530,978	-	-	4,531,422	-
Capital assets (Note 5)	8,522,170	39,070,014	18,804,889	1,447,001	67,844,074	2,883,508
Total noncurrent assets	8,522,728	43,605,586	18,915,511	1,447,001	72,490,826	2,966,120
Total assets	16,227,735	54,271,365	23,840,363	1,603,530	95,942,993	10,002,564
Liabilities						
Current liabilities:						
Accounts payable	557,430	1,657,194	467,947	39,958	2,722,529	33,582
Provision for uninsured losses and liabilities (Note 9)	-	-	-	-	-	466,342
Accrued and other liabilities	113,049	547,834	215,598	22,028	898,509	15,133
Deferred revenue	-	125,375	-	-	125,375	-
Current portion of long-term debt and compensated absences (Note 6)	8,546	1,653,851	1,068,672	4,330	2,735,399	23,119
Total current liabilities	679,025	3,984,254	1,752,217	66,316	6,481,812	538,176
Noncurrent liabilities:						
Provision for compensated absences	1,346	-	9,009	678	11,033	310,594
Long-term debt - Net of current portion (Note 6)	-	37,146,256	3,980,000	-	41,126,256	-
Total noncurrent liabilities	1,346	37,146,256	3,989,009	678	41,137,289	310,594
Total liabilities	680,371	41,130,510	5,741,226	66,994	47,619,101	848,770
Net Assets						
Investment in capital assets - Net of related debt	8,522,614	4,800,884	13,759,889	1,442,671	28,526,058	2,883,508
Unrestricted	7,024,750	8,339,971	4,339,248	93,865	19,797,834	6,270,286
Total net assets	<u>\$ 15,547,364</u>	<u>\$ 13,140,855</u>	<u>\$ 18,099,137</u>	<u>\$ 1,536,536</u>	<u>\$ 48,323,892</u>	<u>\$ 9,153,794</u>

City of Birmingham, Michigan

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2003

	Water Supply System Receiving	Sewage Disposal System	Automobile Parking System	Golf Courses (Other Nonmajor Enterprise Fund)	Total	Internal Service Funds
Operating Revenues						
Sale of water	\$ 2,702,271	\$ -	\$ -	\$ -	\$ 2,702,271	\$ -
Sewage disposal charges	-	4,523,199	-	-	4,523,199	-
Golf course fees and charges	-	-	-	1,063,581	1,063,581	-
Charges for services	-	-	-	-	-	5,537,190
Automobile parking system fees and charges	-	-	3,693,419	-	3,693,419	-
Total operating revenues	2,702,271	4,523,199	3,693,419	1,063,581	11,982,470	5,537,190
Operating Expenses						
Cost of water produced/purchased	1,153,305	-	-	-	1,153,305	-
Cost of sewage treatment	-	2,813,812	-	-	2,813,812	-
Operation and maintenance	1,197,709	676,203	1,922,749	689,927	4,486,588	1,056,128
General and administrative	92,277	226,770	127,559	282,699	729,305	2,090,289
Depreciation and amortization (Note 5)	315,486	918,135	772,222	37,188	2,043,031	861,748
Risk management charge	-	750,000	-	-	750,000	-
Total operating expenses	2,758,777	5,384,920	2,822,530	1,009,814	11,976,041	4,008,165
Operating Income (Loss)	(56,506)	(861,721)	870,889	53,767	6,429	1,529,025
Nonoperating Revenue (Expenses)						
Investment income	100,372	182,881	59,363	9,146	351,762	80,416
Interest expense	(52,750)	(1,588,778)	(265,570)	-	(1,907,098)	-
Gain on disposal of assets	-	-	-	-	-	(45,472)
Property taxes	995,632	2,960,164	-	-	3,955,796	-
Total nonoperating revenue (expenses)	1,043,254	1,554,267	(206,207)	9,146	2,400,460	34,944
Income - Before contributions and transfers	986,748	692,546	664,682	62,913	2,406,889	1,563,969
Capital Contributions	-	-	-	-	-	48,535
Transfers from (to) Other Funds	-	(159,183)	47,463	(20,000)	(131,720)	-
Change in Net Assets	986,748	533,363	712,145	42,913	2,275,169	1,612,504
Net Assets - Beginning of year	14,560,616	12,607,492	17,386,992	1,493,623	46,048,723	7,541,290
Net Assets - End of year	<u>\$ 15,547,364</u>	<u>\$ 13,140,855</u>	<u>\$ 18,099,137</u>	<u>\$ 1,536,536</u>	<u>\$ 48,323,892</u>	<u>\$ 9,153,794</u>

City of Birmingham, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2003

	Water Supply System Receiving	Sewage Disposal System	Automobile Parking System	Golf Courses (Other Nonmajor Enterprise Fund)	Total	Internal Service Funds
Cash Flows from Operating Activities						
Receipts from customers	\$ 2,715,553	\$ 4,339,279	\$ 3,689,224	\$ 1,063,581	\$ 11,807,637	\$ 5,534,053
Payments to suppliers	(1,575,548)	(3,615,366)	(1,659,515)	(368,633)	(7,219,062)	(2,744,726)
Payments to employees	(709,964)	(422,466)	(209,350)	(582,523)	(1,924,303)	(592,068)
Net cash provided by operating activities	430,041	301,447	1,820,359	112,425	2,664,272	2,197,259
Cash Flows from Noncapital Financing Activities - Operating transfers to/from other funds	-	(159,183)	47,463	(20,000)	(131,720)	-
Cash Flows from Capital and Related Financing Activities						
Contributed capital	-	-	-	-	-	48,535
Issuance of debt	-	2,667,497	-	-	2,667,497	-
Principal and interest paid on capital debt	(1,452,750)	(2,761,110)	(1,305,000)	-	(5,518,860)	-
Purchase of capital assets	(784,546)	(5,780,524)	(1,271,701)	(27,086)	(7,863,857)	(639,619)
Proceeds from sale of capital assets	-	-	-	-	-	74,370
Property taxes	995,632	2,960,164	-	-	3,955,796	-
Net cash used in capital and related financing activities	(1,241,664)	(2,913,973)	(2,576,701)	(27,086)	(6,759,424)	(516,714)
Cash Flows from Investing Activities						
Interest received on investments	100,372	182,881	59,363	9,146	351,762	80,416
Proceeds from sale and maturities of investment securities	-	2,393,484	-	-	2,393,484	-
Net cash provided by investing activities	100,372	2,576,365	59,363	9,146	2,745,246	80,416
Net Increase (Decrease) in Cash and Cash Equivalents	(711,251)	(195,344)	(649,516)	74,485	(1,481,626)	1,760,961
Cash and Cash Equivalents - Beginning of year	6,436,783	4,198,435	4,479,159	82,044	15,196,421	5,275,415
Cash and Cash Equivalents - End of year	<u>\$ 5,725,532</u>	<u>\$ 4,003,091</u>	<u>\$ 3,829,643</u>	<u>\$ 156,529</u>	<u>\$ 13,714,795</u>	<u>\$ 7,036,376</u>
Balance Sheet Classification of Cash and Cash Equivalents						
Cash and investments	\$ 6,859,751	\$ 8,931,356	\$ 4,890,896	\$ 156,529	\$ 20,838,532	\$ 7,036,376
Restricted investments (Note 4)	444	4,530,978	-	-	4,531,422	-
Less amounts classified as investments (Note 1)	(1,134,663)	(9,459,243)	(1,061,253)	-	(11,655,159)	-
Total cash and cash equivalents	<u>\$ 5,725,532</u>	<u>\$ 4,003,091</u>	<u>\$ 3,829,643</u>	<u>\$ 156,529</u>	<u>\$ 13,714,795</u>	<u>\$ 7,036,376</u>

City of Birmingham, Michigan

Proprietary Fund Statement of Cash Flows (Continued) Year Ended June 30, 2003

	Water Supply System Receiving	Sewage Disposal System	Automobile Parking System	Golf Courses (Other Nonmajor Enterprise Fund)	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	\$ (56,506)	\$ (861,721)	\$ 870,889	\$ 53,767	\$ 6,429	\$ 1,529,025
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	315,486	918,135	772,222	37,188	2,043,031	861,748
Changes in assets and liabilities:						
Receivables	13,282	(73,205)	(4,195)	-	(64,118)	24,986
Other assets	233,320	-	11,063	-	244,383	1
Inventory	-	(110,715)	(5,889)	-	(116,604)	(2,244)
Accounts payable	(82,681)	378,255	187,060	23,420	506,054	(216,257)
Accrued and other liabilities	7,140	(74,677)	(10,791)	(1,950)	(80,278)	-
Deferred revenue	-	125,375	-	-	125,375	-
Net cash provided by operating activities	<u>\$ 430,041</u>	<u>\$ 301,447</u>	<u>\$ 1,820,359</u>	<u>\$ 112,425</u>	<u>\$ 2,664,272</u>	<u>\$ 2,197,259</u>

Noncash Investing, Capital, and Related Financing Activities - During the year, the General Fund and Capital Projects Fund paid \$48,535 for equipment and contributed it to the Equipment Fund.

City of Birmingham, Michigan

Proprietary Fund Statement of Fiduciary Net Assets June 30, 2003

	Pension and Other Employee Benefits	Agency Fund
Assets		
Cash and cash equivalents	\$ 1,924,341	\$ 1,850,682
Investments:		
U.S. government securities	13,648,271	-
Stocks	54,870,778	-
Bonds	16,732,785	-
Receivables - Accrued interest	417,231	4,100
Other assets	25,726	-
Total assets	87,619,132	<u><u>\$ 1,854,782</u></u>
Liabilities		
Accounts payable	98,052	\$ 19,581
Accrued and other liabilities	-	1,835,201
Total liabilities	98,052	<u><u>\$ 1,854,782</u></u>
Net Assets - Held in trust for pension and other employee benefits		<u><u>\$ 87,521,080</u></u>

City of Birmingham, Michigan

Fiduciary Funds **Statement of Changes in Fiduciary Net Assets** **Year Ended June 30, 2003**

	Pension and Other Employee Benefits
Additions	
Investment income:	
Interest and dividends	\$ 2,642,045
Net increase in fair value of investments	14,095
Less investment expenses	<u>(394,499)</u>
Net investment income	2,261,641
Contributions:	
Employer	1,197,829
Employee	<u>588,563</u>
Total contributions	1,786,392
Other revenue	<u>263,484</u>
Total additions	4,311,517
Deductions	
Benefit payments	3,813,309
Refunds of contributions	398,867
Administrative expenses and other	<u>168,431</u>
Total deductions	<u>4,380,607</u>
Net Decrease	(69,090)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>87,590,170</u>
End of year	<u>\$ 87,521,080</u>

City of Birmingham, Michigan

Component Units Statement of Net Assets June 30, 2003

	Baldwin Public Library	Principal Shopping District	Totals
Assets			
Cash and investments	\$ 2,034,899	\$ 583,670	\$ 2,618,569
Accounts receivable	-	57,834	57,834
Due from other governmental units	51,742	-	51,742
Capital assets	2,837,333	-	2,837,333
Other	-	25,775	25,775
Total assets	4,923,974	667,279	5,591,253
Liabilities			
Accounts payable	100,885	31,447	132,332
Accrued and other liabilities	124,635	5,346	129,981
Deferred revenue	-	57,834	57,834
Total liabilities	225,520	94,627	320,147
Net Assets			
Investment in capital assets - Net of related debt	2,837,333	-	2,837,333
Unrestricted	1,861,121	572,652	2,433,773
Total net assets	<u>\$ 4,698,454</u>	<u>\$ 572,652</u>	<u>\$ 5,271,106</u>

City of Birmingham, Michigan

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and
			Contributions
Baldwin Public Library - Culture and recreation	\$ 3,079,148	\$ 611,214	\$ 63,653
Principal Shopping District - Community development	931,879	885,863	-
Total governmental activities	<u>\$ 4,011,027</u>	<u>\$ 1,497,077</u>	<u>\$ 63,653</u>

General revenues:

Taxes

State sources

Use of money and property

Total general revenues

Increase (Decrease) in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
June 30, 2003**

Net (Expense) Revenue and Changes in Net Assets		
Baldwin Public Library	Principal Shopping District	Total
\$ (2,404,281)	\$ -	\$ (2,404,281)
-	(46,016)	(46,016)
(2,404,281)	(46,016)	(2,450,297)
2,293,838	-	2,293,838
86,718	-	86,718
39,784	4,484	44,268
2,420,340	4,484	2,424,824
16,059	(41,532)	(25,473)
4,682,395	614,184	5,296,579
<u>\$ 4,698,454</u>	<u>\$ 572,652</u>	<u>\$ 5,271,106</u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Birmingham (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Birmingham:

Reporting Entity

The City is governed by an elected seven-member commission. As required by generally accepted accounting principles, these financial statements present the City of Birmingham and its component units.

Discretely Presented Component Units - The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The component units are reported within the component units column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

- a. The Baldwin Public Library is governed by a six-member Board elected directly by the citizens of Birmingham and funded by a specially voted property tax levy. However, the City Commission approves the Library's annual budget, levies the Library millage, and provides the Library facilities. In addition, the Library is not able to issue its own debt. As a result, the Library is fiscally dependent on the City.
- b. The Principal Shopping District was created to promote economic activity within the principal shopping districts of the City by conducting market research and public relations campaigns, developing, coordinating, and conducting retail and institutional promotions, and sponsoring special events and related activities. Its Board consists of eight to twelve members appointed by the City Manager with the concurrence of the City Commission. The City Commission is responsible for approving the District's budget and setting the amount of its annual assessment.

The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation, whose governing body was selected by the City Commission, transferred its remaining assets to the Principal Shopping District during the year ended June 30, 1994 and is currently inactive. Therefore, there are no financial assets or operations to be reported.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note I - Summary of Significant Accounting Policies (Continued)

Complete financial statements of the active component units can be obtained from their respective administrative offices at the addresses below:

Baldwin Public Library
300 West Merrill
Birmingham, MI 48012-3002

Principal Shopping District
798 North Woodward
Birmingham, MI 48009

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

The government reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Major Streets and Local Street Funds - The Major Streets and Local Street Funds accounts for the resources of state gas and weight tax revenues that are restricted for use on major and local streets.

Capital Projects Fund - The Capital Projects Fund accounts for the financial resources such as proceeds of bond issues, transfers from other funds, and other revenue necessary for the purpose of constructing or acquiring major capital improvements of the City such a community center, enhancements to the City's parks, streetscape improvements, and a fire training tower. Improvements to the City's roads, water and sewer infrastructure, parking system, golf courses, and those projects financed primarily by special assessments are accounted for in other funds.

The government reports the following major proprietary funds:

Automobile Parking System Fund - The Automobile Parking System Fund accounts for the activities of the parking structures and meters.

Water Supply System Receiving Fund - The Water Supply System Receiving Fund accounts for water sales that finance water purchased from the Southeastern Oakland County Water Authority and the installation and maintenance of meters and mains within the City.

Sewage Disposal System Fund - The Sewage Disposal System Fund accounts for the activities of the sewage collection system. The City of Birmingham disposes of sewage through two county-operated facilities. Operating in the north and southeastern sections of the City is the Southeastern Oakland County Sewage Disposal District, and in southwestern section of the City, sewage and storm disposal is provided by the Evergreen-Farmington System.

Additionally, the government reports the following fund types:

Internal Service Funds - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

Pension and Other Employees' Benefits Fund - The Pension and Other Employees' Benefits Fund accounts for the activities of the employees' retirement system, which accumulates resources for pension benefit payments to qualified employees and for health care benefits provided to employees during retirement.

Agency Funds - The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for water sales and services, sewage disposal, golf course, and automobile parking system fees and charges. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's 2002 ad valorem tax is levied and collectible on December 1, 2002, and is recognized as revenue in the year ended June 30, 2003, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2002 taxable valuation of the City of Birmingham totaled \$1,492,257,488, on which ad valorem taxes levied consisted of 11.4998 mills for operating purposes, .8338 mills for refuse services, and .9978 mills for debt service. This resulted in \$17.2 million for operating expenses, \$1.2 million for refuse services, and \$1.5 million for debt service, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average, except that the component units, Internal Service Funds, Solid Waste Disposal Fund, and Municipal Golf Courses Fund investment earnings are allocated to the General Fund.

Receivables - All customer receivables are shown net of allowance for uncollectible amounts. For the year ended June 30, 2003, there was approximately \$277,000 in allowances for parking fines and approximately \$85,000 in an allowance for delinquent personal property taxes. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds, with the exception of those in the Major Streets and Local Streets Funds, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15-25 years
Buildings and improvements	10-50 years
Improvements other than buildings	10-50 years
Land improvements	10-50 years
Machinery and equipment	5-10 years
Water and sewer distribution systems	40-50 years

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is calculated for a portion of the unused accumulated sick leave when balances reach a certain level. The City does not have a policy to pay any amounts when employees terminate their service with the City. A portion of the unused sick leave balance is paid to employees who retire their services with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Interfund Receivables, Payable, and Transfers

For the year ended June 30, 2003, there were no interfund balances. Interfund transfers reported in the fund statements were follows:

	Transfers Out				
	General Fund	Major Streets	Other Nonmajor Governmental Funds	Enterprise Funds	Total
Transfers in:					
General Fund	\$ -	\$ -	\$ 61,176 (2)(3)	\$ 20,000 (5)	\$ 81,176
Major Streets Fund	1,845,000 (1)(2)	-	-	-	1,845,000
Local Streets Fund	500,000 (1)(2)	190,076 (7)	-	-	690,076
Capital Projects Fund	150,800 (2)	-	-	-	150,800
Other nonmajor governmental funds	-	-	-	159,186 (4)	159,186
Enterprise Funds	47,463 (6)	-	-	-	47,463
Total	<u>\$ 2,543,263</u>	<u>\$ 190,076</u>	<u>\$ 61,176</u>	<u>\$ 179,186</u>	<u>\$ 2,973,701</u>

The following describes the nature of significant transfers:

- (1) Transfers of discretionary funds to be used for the benefit of the community
- (2) Transfers for capital improvements
- (3) Reimbursement for P.A. 425 expenditures
- (4) Fund interest payment for bond issue from CSO debt service
- (5) Fee in lieu of taxes
- (6) Transfer for Baldwin House parking spaces
- (7) 25 percent transfer of gas and weight taxes as allowed by Act 51

Note 3 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Stewardship, Compliance, and Accountability (Continued)

A summary of the cumulative surplus and activity for the year ended June 30, 2003 is as follows:

Surplus as of June 30, 2002	\$	663,408
Building permit revenue		1,297,489
Related expenses:		
Direct costs	\$	870,626
Estimated indirect costs		<u>475,443</u>
Total construction code expenses		<u>1,346,069</u>
Surplus as of June 30, 2003	\$	<u><u>614,828</u></u>

The above surplus amount is primarily related to large commercial construction projects within the City. This project has resulted in greater than usual building permit revenues. The surplus is therefore not expected to remain over future years and has been reserved in the General Fund.

Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that the component units, Internal Service Funds, Solid Waste Disposal Fund, and Municipal Golf Courses Fund investment earnings are allocated to the General Fund.

The governing body has designated two banks for the deposit of local unit funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Deposits and Investments (Continued)

The pension trust funds are also authorized by Michigan Public Act 485 of 1996 (as amended) to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City of Birmingham deposits and investment policy are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 22,791,487	\$ 20,838,532	\$ 89,026,857	\$ 132,656,876	\$ 2,618,569
Restricted assets	<u>5,772,496</u>	<u>4,531,422</u>	<u>-</u>	<u>10,303,918</u>	<u>-</u>
Total	<u>\$ 28,563,983</u>	<u>\$ 25,369,954</u>	<u>\$ 89,026,857</u>	<u>\$ 142,960,794</u>	<u>\$ 2,618,569</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 7,961,086	\$ 1,369,208
Investments in securities, mutual funds, and similar vehicles	134,993,927	1,248,436
Petty cash or cash on hand	<u>5,781</u>	<u>925</u>
Total	<u>\$ 142,960,794</u>	<u>\$ 2,618,569</u>

Note 4 - Deposits and Investments (Continued)

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$6,813,190, of which \$320,110 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2003. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Deposits and Investments (Continued)

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds	\$ -	\$ 18,051,666	\$ -	\$ 18,051,666
U.S. government securities	-	29,928,659	-	29,928,659
Equity securities	-	59,228,340	-	59,228,340
Subtotal	<u>\$ -</u>	<u>\$ 107,208,665</u>	<u>\$ -</u>	107,208,665
Investments not subject to categorization:				
Bank Fund Investment Pool				18,767,640
MBIA Michigan Class Investment Pool				<u>9,017,622</u>
Total primary government				<u>\$ 134,993,927</u>
Component units:				
U.S. government securities	\$ -	\$ 787,715	\$ -	\$ 787,715
Bank investment pool funds				<u>460,721</u>
Total component unit				<u>\$ 1,248,436</u>

The bank fund investment pools and MBIA Michigan Class Investing pool are not categorized because they are not evidenced by securities that are in physical or book entry form. The bank fund investment pools represent a pooling of investments held by the trust department of the bank, and are not subject to general creditors of the bank and therefore are not subject to federal depository insurance; all activity is regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Note 4 - Deposits and Investments (Continued)

Included in the City's investments at June 30, 2003 are the following:

- U.S. Treasury strips and U.S. Treasury coupons of approximately \$1,841,000. These investments represent the purchase of the principal portion of United States Treasury notes. Similar to a zero coupon bond, this type of investment is purchased at a discount (which represents the future interest earnings of the instrument). There is no prepayment risk associated with this instrument, as the U.S. government is not allowed to call it early. Purchase of these investments allows the City to lock in favorable interest rates for the term of the securities.
- Asset-backed securities of approximately \$4,184,000. These securities are backed by small business administration loans and typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending upon the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these "pay through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$5,391,000 of collateralized mortgage obligations (approximately \$3,325,000 of this amount is in obligations of the Federal National Mortgage Association). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$74,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Deposits and Investments (Continued)

The component units cash and investments include \$1,369,208 of deposits (\$1,370,772 reflected in the accounts of the bank), \$460,721 of bank and MBIA Michigan Class investment pools, \$787,715 of U.S. government securities (Risk Category 2), and \$925 of petty cash. The bank fund investment pools and MBIA Michigan Class investment pools are not categorized because they are not evidenced by securities that are in physical or book entry form.

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

Governmental Activities	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 745,990	\$ 6,889,200	\$ -	\$ 7,635,190
Construction in progress	2,072,006	2,200,002	1,497,456	2,774,552
Subtotal	2,817,996	9,089,202	1,497,456	10,409,742
Capital assets being depreciated:				
Roads and sidewalks	16,966,848	5,117,513	3,101,925	18,982,436
Buildings and improvements	19,896,129	2,178,707	-	22,074,836
Improvements other than buildings	289,004	48,327	-	337,331
Machinery and equipment	9,633,633	656,915	528,208	9,762,340
Subtotal	46,785,614	8,001,462	3,630,133	51,156,943
Accumulated depreciation:				
Roads and sidewalks	4,356,019	845,134	3,101,925	2,099,228
Buildings and improvements	2,697,448	123,793	-	2,821,241
Improvements other than buildings	1,326	838	-	2,164
Machinery and equipment	5,778,504	1,019,486	402,209	6,395,781
Subtotal	12,833,297	1,989,251	3,504,134	11,318,414
Net capital assets being depreciated	33,952,317	6,012,211	125,999	39,838,529
Net capital assets	\$ 36,770,313	\$ 15,101,413	\$ 1,623,455	\$ 50,248,271

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 1,597,920	\$ -	\$ -	\$ 1,597,920
Construction in progress	2,688,148	4,640,834	-	7,328,982
Subtotal	4,286,068	4,640,834	-	8,926,902
Capital assets being depreciated:				
Water and sewer distribution systems	40,624,223	7,566,020	-	48,190,243
Land improvements	1,647,553	-	-	1,647,553
Buildings and building improvements	26,867,368	1,270,574	-	28,137,942
Machinery and equipment	1,677,852	58,971	1,597	1,735,226
Subtotal	70,816,996	8,895,565	1,597	79,710,964
Accumulated depreciation:				
Water and sewer distribution systems	6,636,362	1,214,022	-	7,850,384
Land improvements	-	-	-	-
Buildings and building improvements	10,866,991	748,608	-	11,615,599
Machinery and equipment	1,248,995	80,401	1,597	1,327,799
Subtotal	18,752,348	2,043,031	1,597	20,793,782
Net capital assets being depreciated	52,064,648	6,852,534	-	58,917,182
Net capital assets	\$ 56,350,716	\$ 11,493,368	\$ -	\$ 67,844,084

Capital asset activity for the City of Birmingham's component units was as follows:

Component Units	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Capital assets not being depreciated -				
Fine arts	\$ 95,500	\$ -	\$ -	\$ 95,500
Capital assets being depreciated:				
Equipment	1,304,592	428,463	89,741	1,643,314
Books, periodicals, etc.	6,929,599	362,054	114,754	7,176,899
Subtotal	8,234,191	790,517	204,495	8,820,213
Less accumulated depreciation	(5,615,713)	(652,265)	(189,598)	(6,078,380)
Net capital assets being depreciated	2,618,478	138,252	14,897	2,741,833
Net capital assets	\$ 2,713,978	\$ 138,252	\$ 14,897	\$ 2,837,333

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 96,617
Public safety	109,376
Public works	874,383
Economic development	2,296
Recreation and culture	44,831
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	<u>861,748</u>

Total governmental activities	<u><u>\$ 1,989,251</u></u>
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Business-type activities:

Water	\$ 315,486
Sewer	918,135
Automobile parking system	772,222
Golf courses	<u>37,188</u>

Total business-type activities	<u><u>\$ 2,043,031</u></u>
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Construction Commitments - At year end, the City of Birmingham has active construction projects. The City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Street projects	\$ 1,186,366	\$ 1,683,008
Parking deck improvements	778,155	304,891
Park renovations	1,032,837	566,119
Sewer improvements	1,322,943	1,376,654
Water system improvements	<u>548,160</u>	<u>874,393</u>
Total	<u><u>\$ 4,868,461</u></u>	<u><u>\$ 4,805,065</u></u>

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds							
1993 Facility Renovation Bonds:							
Amount of issue - \$18,400,000	4.7% -	\$300,000 -					
Maturing through 2012	5.40%	\$800,000	\$ 5,900,000	\$ -	\$ (350,000)	\$ 5,550,000	\$ 350,000
2002 Parks & Recreation Bonds:							
Amount of issue - \$15,700,000	2.0% -	\$200,000 -					
Maturing through 2025	5.00%	\$1,300,000	-	15,700,000	-	15,700,000	200,000
Other long-term obligations -							
Accumulated employee benefits			112,111	1,027,209	-	1,139,320	723,356
Total governmental activities			\$ 6,012,111	\$ 16,727,209	\$ (350,000)	\$ 22,389,320	\$ 1,273,356

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds:							
Chester Street Parking Structure:							
Amount of issue - \$18,400,000	4.7% -	\$815,000 -					
Maturing through 2012	5.40%	\$1,020,000	\$ 5,835,000	\$ -	\$ 920,000	\$ 4,915,000	\$ 935,000
Peabody Street Parking Structure:							
Amount of issue - \$2,950,000	4.65% -	\$120,000 -					
Maturing through 2003	4.75%	\$130,000	250,000	-	120,000	130,000	130,000
2000 Sewer Improvement Bonds:							
Amount of issue - \$12,000,000	5.25% -	\$200,000 -					
Maturing through 2020	8.00%	\$1,200,000	11,500,000	-	200,000	11,300,000	200,000
C.S.O. Obligations:							
Amount of issue - \$22,706,977							
(Net of 1996 and 1999							
defeasance)	2% -	\$838,066 -					
Maturing through 2016	7.00%	\$1,694,906	19,861,370	-	929,678	18,931,691	1,017,690
George W Kuhn Drain Bonds:							
Amount of issue - \$5,672,532	2.5% -	\$42,654 -					
Maturing through 2024	6.00%	\$349,529	5,672,533	-	42,654	5,629,879	43,365
North Arm Drain Bonds:							
Amount of issue - \$13,877,387	1.1% -	\$121,756 -					
Maturing through 2021	1.30%	\$174,693	-	2,667,497	-	2,667,497	121,756
Revenue bonds:							
Water Supply System:							
Amount of issue - \$3,000,000	3.25% -						
Maturing through 2008	4.88%	\$200,000	1,400,000	-	1,400,000	-	-
Total bonds and other contractual obligations			44,518,903	2,667,497	3,612,332	43,574,067	2,447,811
Other long-term obligations -							
Accumulated employee benefits			2,553	296,068	-	298,621	287,588
Total business-type activities			\$ 44,521,456	\$ 2,963,565	\$ 3,612,332	\$ 43,872,688	\$ 2,735,399

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 550,000	\$ 946,193	\$ 1,496,193	\$ 2,718,851	\$ 1,834,871	\$ 4,553,722
2005	600,000	923,993	1,523,993	2,673,471	1,726,867	4,400,338
2006	700,000	899,194	1,599,194	2,730,503	1,613,461	4,343,964
2007	850,000	870,219	1,720,219	2,904,561	1,693,226	4,597,787
2008	900,000	835,745	1,735,745	2,989,329	1,365,592	4,354,921
2009-2013	6,150,000	3,470,140	9,620,140	11,737,705	12,552,213	24,289,918
2014-2018	4,300,000	2,308,375	6,608,375	12,365,227	2,575,815	14,941,042
2019-2023	5,900,000	1,059,000	6,959,000	5,438,021	494,123	5,932,144
2024-2028	1,300,000	32,500	1,332,500	287,441	8,124	295,565
Total	<u>\$ 21,250,000</u>	<u>\$ 11,345,359</u>	<u>\$ 32,595,359</u>	<u>\$ 43,845,109</u>	<u>\$ 23,864,292</u>	<u>\$ 67,709,401</u>

Note 7 - Restricted Assets

The balance of the restricted assets in the governmental activities is approximately \$5,773,000, which is restricted for facility and park improvement projects. In addition, restricted assets in the business-type activities include amounts on deposit at the county being held for debt service of the City of Birmingham's water and sewer lines. There is approximately \$4,531,000 restricted for payment of the sewer bond principal and interest.

Note 8 - Designated Fund Balance

Fund balances have been designated as follows:

Capital Projects Fund:

Woodward median	\$ 1,865,364
Downtown 2016 plan	630,448
Downtown streetscape	323,758
Downtown streetlights	193,900
Chester Street structure	65,100
EPS property maintenance	36,640
City Hall and grounds	35,000
Fire station training tower	13,352
Ice arena renovation	7,633
Total	<u>\$ 3,171,195</u>

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City is insured under the Michigan Municipal League for workers' compensation claims, general liability, and property loss and is self-insured for other employee retiree, health, and dental claims.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City estimates the liability for general liability and employee health and dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Risk Management Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2003	2002
Unpaid claims - Beginning of year	\$ 675,406	\$ 467,183
Incurred claims - Including claims incurred but not reported	1,476,599	2,344,208
Claim payments	<u>(1,685,663)</u>	<u>(2,135,985)</u>
Unpaid claims - End of year	<u>\$ 466,342</u>	<u>\$ 675,406</u>

Note 10 - Defined Benefit Pension Plan

Plan Description -The City of Birmingham Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Birmingham Employees' Retirement System Pension Board. This plan covers all full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the City of Birmingham, 151 Martin, P.O. Box 3001, Birmingham, MI 48009.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2003

Note 10 - Defined Benefit Pension Plan (Continued)

Funding Policy - The City Commission is responsible for establishing and amending plan provisions, pursuant to negotiation with the City's competitive bargaining units.

Currently, a contribution from the employees of 3 percent to 5 percent of their covered salary is required. The funding policy provides for periodic employer contributions at actuarially determined rates. Only employee contributions were required for the year ended June 30, 2003.

Annual Pension Cost

For the year ended June 30, 2003, the City had no required pension contributions. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4 percent per year, (c) additional projected salary increases ranging from 0.0 percent to 3.8 percent per year depending on age, attributable to seniority/merit, and (d) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 15 years.

Reserves

As of June 30, 2003, the plan's legally required reserves has been fully funded as follows:

Reserve for employees' contributions	\$ 7,415,993
Reserve for retired benefit payments	30,147,958

Three-year trend information as of June 30 follows:

	Fiscal Year Ended June 30		
	2001	2002	2003
Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 11 - Postemployment Benefits

In addition to providing pension benefits, the City provides health care benefits to certain full-time employees, based on age and years of service, upon retirement in accordance with labor contracts. Currently, 137 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums and claim administrator reimbursements become due; during the year, this amounted to approximately \$916,000.

Note 12 - Joint Ventures

Birmingham Area Cablecasting Board

The City is a member of the Birmingham Area Cablecasting Board, which provides cable program coordinating services to the residents of Birmingham, Beverly Hills, and Franklin Village. The City receives quarterly checks from Comcast, which consist of revenue related to franchise and use fees. The City then distributes a fixed percentage of the amounts received to the Village of Beverly Hills for their portion of the revenues. It does not appear that the City would receive any additional benefit or detriment upon dissolution of this joint venture. The City's equity interest in the joint venture is insignificant. Complete financial statements for the Birmingham Area Cablecasting Board can be obtained from the administrative offices at 30400 Telegraph Road, Suite 328, Birmingham, MI 48010.

Southeastern Oakland County Sewage Disposal System

The City is a member of the Southeastern Oakland County Sewage Disposal System, which consists of 13 municipalities in Oakland County and provides sewage disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2003, the City expensed approximately \$993,000 of payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Sewage Disposal System's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland County Sewage Disposal System can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Note 12 - Joint Ventures (Continued)

Southeastern Oakland County Water Authority

The City is a member of the Southeastern Oakland County Water Authority, which provides a water supply system serving 11 member municipalities in Oakland County. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2003, the City expensed approximately \$1,114,400 of payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Water Authority's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. The Southeastern Oakland County Water Authority has two debt issuances totaling approximately \$9,000,000, of which the City has guaranteed approximately \$683,000 at June 30, 2003. Complete financial statements for the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Southeastern Oakland County Resource Recovery Authority

The City is a member of the Southeastern Oakland County Resource Recovery Authority, which consists of 14 municipalities in Oakland County and provides refuse disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2003, the City expensed approximately \$527,000 of payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Resource Recovery Authority's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Note 12 - Joint Ventures (Continued)

48th Judicial District Court

The City is a participant with Bloomfield Township, the Charter Township of West Bloomfield, and the City of Bloomfield Hills in the operations of the 48th Judicial District Court (the "Court"). The City advances its allocated share of Court expenditures and receives a share of the Court revenue based on relative caseload levels. The City's share of Court expenditures amounted to \$879,010 and its share of Court revenue amounted to \$846,128 for the Court's year ended December 31, 2002. Complete audited financial statements for the Court can be obtained from the Court's administrative offices at 4280 Telegraph Road in Bloomfield Township. The City's equity interest at June 30, 2003 is \$496,973.

Note 13 - Accounting and Reporting Change

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. The City of Birmingham has applied the provisions of this statement in the accompanying financial statements (including the notes to financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling approximately \$32,600,000 that would previously have been reported in the General Fixed Assets Account Group
- Capital assets at July 1, 2002 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$5,982,000 to reflect the historical cost of the City's capital assets at that date.

Note 13 - Accounting and Reporting Change (Continued)

- The governmental activities column includes bonds and other long-term obligations totaling \$5,900,000 previously reported in the General Long-term Debt Account Group.

Note 14 - Subsequent Events

Subsequent to year end, the City issued general obligation tax refunding bonds totaling approximately \$9.1 million for the refunding of the City's outstanding 1993 General Obligation Unlimited Tax Facilities and Refunding Bonds. The payments begin in April 2004 and mature in October 2012, with interest ranging from 2 percent to 4 percent.

Required Supplemental Information

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 14,025,980	\$ 14,025,980	\$ 14,066,321	\$ 40,341
Licenses and permits	1,513,250	1,433,250	1,554,182	120,932
Intergovernmental	2,269,850	2,159,850	2,129,657	(30,193)
Charges for services	1,967,710	1,944,710	2,093,287	148,577
Fines and forfeitures	1,684,700	1,454,700	1,310,556	(144,144)
Interest and rents	614,260	194,260	174,080	(20,180)
Other	64,000	135,730	95,320	(40,410)
Contributions	137,460	69,730	81,173	11,443
Total revenue	<u>\$ 22,277,210</u>	<u>\$ 21,418,210</u>	<u>\$ 21,504,576</u>	<u>\$ 86,366</u>
Expenditures				
General government	4,960,990	4,807,958	4,462,205	345,753
Public safety	8,875,640	9,087,073	8,645,884	441,189
Community development	1,493,380	1,520,890	1,401,001	119,889
Engineering and public services	3,224,590	3,978,151	3,828,632	149,519
Contingency	168,230	8,230	-	8,230
Transfers to other funds	3,554,380	3,574,380	3,409,441	164,939
Total expenditures	<u>\$ 22,277,210</u>	<u>\$ 22,976,682</u>	<u>\$ 21,747,163</u>	<u>\$ 1,229,519</u>

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental revenue	\$ 781,060	\$ 781,060	\$ 787,284	\$ 6,224
Interest	164,400	39,400	35,601	(3,799)
Other revenue	-	-	30,787	30,787
Contributions	<u>1,845,000</u>	<u>1,845,000</u>	<u>1,845,000</u>	<u>-</u>
Total revenue	<u>\$ 2,790,460</u>	<u>\$ 2,665,460</u>	<u>\$ 2,698,672</u>	<u>\$ 33,212</u>
Expenditures	<u>\$ 4,563,640</u>	<u>\$ 5,564,166</u>	<u>\$ 2,903,148</u>	<u>\$ 2,661,018</u>

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Speical assessments	\$ 107,120	\$ 107,120	\$ 163,417	\$ 56,297
Intergovernmental revenue	793,390	793,390	802,396	9,006
Interest	97,010	97,010	40,927	(56,083)
Other revenue	-	-	74,556	74,556
Contributions	688,460	688,460	690,076	1,616
	<u>688,460</u>	<u>688,460</u>	<u>690,076</u>	<u>1,616</u>
Total revenue	<u>\$ 1,685,980</u>	<u>\$ 1,685,980</u>	<u>\$ 1,771,372</u>	<u>\$ 85,392</u>
Expenditures	<u>\$ 2,025,560</u>	<u>\$ 2,408,297</u>	<u>\$ 1,644,058</u>	<u>\$ 764,239</u>

City of Birmingham, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2003

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (UAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Overfunded AAL as a Percentage of Covered Payroll
General Employees' Retirement System						
6/30/97	\$ 65,807,378	\$ 44,713,386	\$ 21,093,992	1.472	\$ 7,826,437	2.695
6/30/98	75,696,740	47,162,594	28,534,146	1.605	8,583,532	3.324
6/30/99	85,246,634	49,913,637	35,332,997	1.708	9,236,258	3.825
6/30/00	93,811,587	53,812,167	39,999,420	1.743	9,867,703	4.054
6/30/01	97,938,389	56,216,921	41,721,468	1.742	9,741,497	4.283
6/30/02	80,837,115	64,898,186	15,938,929	1.246	10,877,102	1.465
6/30/03	80,197,613	*	*	*	*	*

*Information not available

Employees Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/96	06/30/94	\$ -	100.0
06/30/97	06/30/95	-	100.0
06/30/98	06/30/96	-	100.0
06/30/99	06/30/97	-	100.0
06/30/00	06/30/98	-	100.0
06/30/01	06/30/99	-	100.0
06/30/02	06/30/00	-	100.0
06/30/03	06/30/01	-	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation date, follows:

Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	15 years, closed
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases*	
General	4.0%-7.8%
Police and fire	4.0%-7.0%
*Includes inflation at	4.0%
Cost of living adjustments	None

According to actuarial requirements, there have been no required employer contributions to the plan for the last 12 years.

City of Birmingham, Michigan

Note to Required Supplemental Information June 30, 2003

Note - Compliance and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, Debt Service Funds (with the exception of the Parks and Recreation Fund, for which a budget was not adopted), and Capital Projects Funds except that fund balance appropriations and transfers are budgeted as either revenue or expenditures to balance the budget. All annual appropriations lapse at fiscal year end.

The annual budget is prepared by the City management and adopted by the City Commission. The City adopts its General Fund budget by budgetary center (major activity or function), and by fund total for Special Revenue and Debt Service Funds. This is in accordance with the State's legal requirement and is the level of classification detail at which, by law, expenditures may not exceed appropriations. The following process is required to amend the City's budget:

- a. The City Manager is authorized to transfer budgeted amounts within budgetary centers. This is accomplished by the use of an internal budget adjustment form, initialed and approved by the requesting Department Head, reviewed and approved by the Finance Director, and then approved by the City Manager. Any revisions that alter the total expenditures of any budgetary center must be approved by the City Commission.
- b. At any meeting after the passage of the appropriation resolution, the City Commission may amend such resolution so as to authorize the transfer of unused balances appropriated for one purpose to another purpose. A formal budget amendment request is prepared by the finance director and submitted to the City Manager for approval, prior to submission to the City Commission.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, Debt Service, and Capital Projects Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Commission. Individual amendments were not material in relation to the original appropriations that were adopted.

City of Birmingham, Michigan

Note to Required Supplemental Information June 30, 2003

Note - Compliance and Accountability (Continued)

Unexpended appropriations lapse at year end except for those approved for carryforward by the City Commission. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary procedures. Material encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances during the year.

Other Supplemental Information

City of Birmingham, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2003

	Nonmajor Special Revenue Funds			Nonmajor Debt Service Fund	
	Solid Waste	Community Development Block Grant	Law and Drug Forfeitures	1993 Facilities	Total Nonmajor Governmental Funds
Assets					
Cash and investments	\$ 826,215	\$ -	\$ 74,799	\$ 10,078	\$ 911,092
Receivables - Net - Customers	260	-	-	-	260
Due from other governmental units	-	3,395	-	-	3,395
Total assets	<u>\$ 826,475</u>	<u>\$ 3,395</u>	<u>\$ 74,799</u>	<u>\$ 10,078</u>	<u>\$ 914,747</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 74,160	\$ 3,395	\$ -	\$ -	\$ 77,555
Accrued and other liabilities	1,125	-	-	-	1,125
Total liabilities	75,285	3,395	-	-	78,680
Fund Balances					
Reserved for:					
Encumbrances	-	-	2,450	-	2,450
Law and drug enforcement programs	-	-	72,349	-	72,349
Debt service	-	-	-	10,078	10,078
Unreserved	751,190	-	-	-	751,190
Total fund balance	751,190	-	74,799	10,078	836,067
Total liabilities and fund balances	<u>\$ 826,475</u>	<u>\$ 3,395</u>	<u>\$ 74,799</u>	<u>\$ 10,078</u>	<u>\$ 914,747</u>

City of Birmingham, Michigan

Nonmajor Special Revenue Funds				
	Solid Waste	Community Development Block Grant	Law and Drug Fund	425 Economic Development
Revenues				
Property taxes	\$ 1,244,237	\$ -	\$ -	\$ 11,763
Federal grants	-	62,776	41,009	-
State grants and distributions	-	-	11,734	-
Charges for services	176,027	-	-	-
Use of money and property	15,728	-	828	-
Other	-	-	-	-
Total revenues	1,435,992	62,776	53,571	11,763
Expenditures				
Current:				
Public safety	-	-	38,887	-
Solid waste	1,316,938	-	-	-
Community development	-	13,363	-	-
Debt service	-	-	-	-
Total expenditures	1,316,938	13,363	38,887	-
Excess of Revenues Over (Under) Expenditures	119,054	49,413	14,684	11,763
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	-	(49,413)	-	(11,763)
Total other financing sources (uses)	-	(49,413)	-	(11,763)
Net Change in Fund Balances	119,054	-	14,684	-
Fund Balances - Beginning of year	632,136	-	60,115	-
Fund Balances - End of year	\$ 751,190	\$ -	\$ 74,799	\$ -

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2003

Nonmajor Debt Service Funds		
1993 Facilities	2002 Parks and Recreation	Total Nonmajor Governmental Funds
\$ 653,516	\$ -	\$ 1,909,516
-	-	103,785
-	-	11,734
-	-	176,027
1,391	-	17,947
-	63,077	63,077
654,907	63,077	2,282,086
-	-	38,887
-	-	1,316,938
-	-	13,363
649,301	222,263	871,564
649,301	222,263	2,240,752
5,606	(159,186)	41,334
-	159,186	159,186
-	-	(61,176)
-	159,186	98,010
5,606	-	139,344
4,472	-	696,723
\$ 10,078	\$ -	\$ 836,067

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds Year Ended June 30, 2003

Special Revenue Fund - Solid Waste

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 1,244,140	\$ 1,244,140	\$ 1,244,237	\$ 97
Charges for services	37,350	37,850	176,027	138,177
Interest and other	60,860	60,860	15,728	(45,132)
Other revenue	500	-	-	-
Total revenues	<u>\$ 1,342,850</u>	<u>\$ 1,342,850</u>	<u>\$ 1,435,992</u>	<u>\$ 93,142</u>
Expenditures	<u>\$ 1,342,850</u>	<u>\$ 1,342,850</u>	<u>\$ 1,316,938</u>	<u>\$ 25,912</u>

Special Revenue Fund - Community Development Block Grant

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues - Intergovernmental	<u>\$ 45,430</u>	<u>\$ 69,430</u>	<u>\$ 62,776</u>	<u>\$ (6,654)</u>
Expenditures	<u>\$ 45,430</u>	<u>\$ 69,430</u>	<u>\$ 62,776</u>	<u>\$ 6,654</u>

Special Revenue Fund - Law and Drug Fund

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Fines and forfeitures	\$ 26,550	\$ 46,560	\$ 52,743	\$ 6,183
Interest and other	16,590	16,590	828	(15,762)
Total revenues	<u>\$ 43,140</u>	<u>\$ 63,150</u>	<u>\$ 53,571</u>	<u>\$ (9,579)</u>
Expenditures	<u>\$ 76,150</u>	<u>\$ 63,150</u>	<u>\$ 38,887</u>	<u>\$ 24,263</u>

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds (Continued) Year Ended June 30, 2003

Special Revenue Fund - 425 Economic Development Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues - Taxes	<u>\$ -</u>	<u>\$ 11,763</u>	<u>\$ 11,763</u>	<u>\$ -</u>

Special Revenue Fund - 1993 Facilities Bond

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues - Taxes	<u>\$ 653,570</u>	<u>\$ 653,570</u>	<u>\$ 654,907</u>	<u>\$ 1,337</u>
Expenditures	<u>\$ 648,380</u>	<u>\$ 648,780</u>	<u>\$ 649,301</u>	<u>\$ (521)</u>

City of Birmingham, Michigan

Other Supplemental information Combining Statement of Net Assets Internal Service Funds June 30, 2003

	Equipment	Personal Services	Risk Management	Totals
Assets				
Cash and investments	\$ 4,248,251	\$ 672,192	\$ 2,115,933	\$ 7,036,376
Inventory	68	-	-	68
Prepaid costs and other assets	-	-	82,612	82,612
Capital assets	2,883,508	-	-	2,883,508
Total assets	7,131,827	672,192	2,198,545	10,002,564
Liabilities				
Accounts payable	31,467	-	2,115	33,582
Accrued liabilities	59,064	288,958	824	348,846
Provision for uninsured losses and liabilities	-	-	466,342	466,342
Total liabilities	90,531	288,958	469,281	848,770
Net Assets				
Investment in capital assets - Net of related debt	2,883,508	-	-	2,883,508
Retained earnings	4,157,788	383,234	1,729,264	6,270,286
Total net assets	<u>\$ 7,041,296</u>	<u>\$ 383,234</u>	<u>\$ 1,729,264</u>	<u>\$ 9,153,794</u>

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Revenues, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2003

	Equipment	Personal Services	Risk Management	Totals
Operating Revenues - Charges to other funds	\$ 2,162,254	\$ 3,137	\$ 3,371,799	\$ 5,537,190
Operating Expenses				
General and administrative	-	-	2,090,289	2,090,289
Supplies and other operating expenses	1,056,128	-	-	1,056,128
Depreciation	861,748	-	-	861,748
Total operating expenses	1,917,876	-	2,090,289	4,008,165
Operating Income	244,378	3,137	1,281,510	1,529,025
Nonoperating Income				
Interest earned	50,352	8,549	21,515	80,416
Loss on sale of capital assets	(45,472)	-	-	(45,472)
Contributions	48,535	-	-	48,535
Net nonoperating income	53,415	8,549	21,515	83,479
Changes in Net Assets	297,793	11,686	1,303,025	1,612,504
Net Assets - Beginning of year	6,743,503	371,548	426,239	7,541,290
Net Assets - End of year	<u>\$ 7,041,296</u>	<u>\$ 383,234</u>	<u>\$ 1,729,264</u>	<u>\$ 9,153,794</u>

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2003

	Equipment	Personal Services	Risk Management	Totals
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,162,254	\$ -	\$ 3,371,799	\$ 5,534,053
Payments to suppliers	(472,065)	-	(2,272,661)	(2,744,726)
Payments to employees	(581,020)	(11,048)	-	(592,068)
Net cash provided by (used in) operating activities	1,109,169	(11,048)	1,099,138	2,197,259
Cash Flows from Capital and Related Financing Activities				
Contributed capital	48,535	-	-	48,535
Purchase of capital assets	(639,619)	-	-	(639,619)
Proceeds from sale of capital assets	74,370	-	-	74,370
Net cash used in capital and related financing activities	(516,714)	-	-	(516,714)
Cash Flows from Investing Activities - Interest received on investments	50,352	8,549	21,515	80,416
Net Increase (Decrease) in Cash and Cash Equivalents	642,807	(2,499)	1,120,653	1,760,961
Cash and Cash Equivalents - Beginning of year	3,605,444	674,691	995,280	5,275,415
Cash and Cash Equivalents - End of year	<u>\$ 4,248,251</u>	<u>\$ 672,192</u>	<u>\$ 2,115,933</u>	<u>\$ 7,036,376</u>
Reconciliation of Operating Income to Net Cash from Operating Activities				
Operating income	\$ 244,378	\$ 3,137	\$ 1,281,510	\$ 1,529,025
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization	861,748	-	-	861,748
Changes in assets and liabilities:				
Other assets	-	-	24,986	24,986
Inventory	1	-	-	1
Accounts payable	(3,907)	-	1,663	(2,244)
Accrued and other liabilities	6,949	(14,185)	(209,021)	(216,257)
Net cash provided by (used in) operating activities	<u>\$ 1,109,169</u>	<u>\$ (11,048)</u>	<u>\$ 1,099,138</u>	<u>\$ 2,197,259</u>

Noncash Investing, Capital, and Related Financing Activities - During the year, the General Fund and Capital Projects Fund paid \$48,535 for equipment and contributed it to the Equipment Fund.

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2003

	Pension Trust Fund	Retiree Health Care	Totals
Assets			
Cash and cash equivalents	\$ 1,718,853	\$ 205,488	\$ 1,924,341
Investments:			
U.S. government securities	12,170,963	1,477,308	13,648,271
Stocks	50,513,216	4,357,562	54,870,778
Bonds	15,413,904	1,318,881	16,732,785
Receivable - Accrued interest	378,442	38,789	417,231
Other assets	<u>2,235</u>	<u>23,491</u>	<u>25,726</u>
Total assets	80,197,613	7,421,519	87,619,132
Liabilities - Accounts payable	<u>-</u>	<u>98,052</u>	<u>98,052</u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 80,197,613</u></u>	<u><u>\$ 7,323,467</u></u>	<u><u>\$ 87,521,080</u></u>

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2003

	Pension Trust Fund	Retiree Health Care	Totals
Additions			
Investment income (loss):			
Interest and dividends	\$ 2,416,677	\$ 225,368	\$ 2,642,045
Net decline in fair value of investments	40,674	(26,579)	14,095
Investment expenses	<u>(358,147)</u>	<u>(36,352)</u>	<u>(394,499)</u>
Total investment income (loss)	2,099,204	162,437	2,261,641
Contributions:			
Employer	-	1,197,829	1,197,829
Employee	<u>439,834</u>	<u>148,729</u>	<u>588,563</u>
Total contributions	439,834	1,346,558	1,786,392
Other revenue	<u>263,484</u>	<u>-</u>	<u>263,484</u>
Total additions - Net of investment income (loss)	2,802,522	1,508,995	4,311,517
Deductions			
Benefit payments	2,897,684	915,625	3,813,309
Refunds of contributions	398,867	-	398,867
Administrative expenses	<u>145,473</u>	<u>22,958</u>	<u>168,431</u>
Total deductions	<u>3,442,024</u>	<u>938,583</u>	<u>4,380,607</u>
Net Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	(639,502)	570,412	(69,090)
Net Assets Held in Trust for Pension Benefits			
Beginning of year	<u>80,837,115</u>	<u>6,753,055</u>	<u>87,590,170</u>
End of year	<u>\$ 80,197,613</u>	<u>\$ 7,323,467</u>	<u>\$ 87,521,080</u>

Statistical Section

City of Birmingham, Michigan

Fiscal Year	General		Public	
	Government	Percent	Safety	Percent
1993-1994	\$ 3,946,281	19.0	\$ 6,553,470	31.6
1994-1995	3,642,441	14.7	6,663,465	27.0
1995-1996	3,573,940	17.6	6,258,554	30.9
1996-1997 (2)	3,233,526	14.3	6,557,207	29.1
1997-1998	3,299,170	15.6	6,687,762	31.5
1998-1999	4,026,468	17.2	7,016,085	30.0
1999-2000	3,956,430	16.4	7,475,104	30.9
2000-2001	4,106,070	14.8	7,917,513	28.5
2001-2002	4,256,477	11.5	8,184,850	22.1
2002-2003	4,462,205	12.4	8,684,771	24.1
Percentage increase (decrease)				
from 2002 to 2003		4.8%	6.1%	

- (1) This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund through 2001-2002. In 2002-2003, the Expendable Trust Fund has been eliminated.
- (2) Starting in 1997, the general government expenditures for the year ended June 30, 1998 decreased due to the retirement system costs reclassified from the General Fund and charged to the Pension Trust Fund.

**General Governmental Expenditures by Function
Last Ten Fiscal Years (I)**

Solid Waste	Percent	Highways and Streets	Percent	Community Development	Percent
\$ 1,992,544	9.6	\$ 1,644,775	7.9	\$ -	-
2,011,133	8.1	1,515,263	6.1	-	-
1,472,284	7.3	1,335,589	6.6	703,432	3.5
1,544,191	6.9	1,812,064	8.0	768,488	3.4
1,445,323	6.8	1,800,387	8.5	754,864	3.6
1,115,091	4.8	2,096,660	9.0	1,222,351	5.2
1,099,130	4.5	1,831,453	7.6	1,145,835	4.7
1,147,010	4.1	2,175,935	7.8	1,362,024	4.9
1,205,276	3.3	1,950,418	5.3	1,433,099	3.9
1,316,938	3.7	2,074,639	5.8	1,414,364	3.9
9.3%		6.4%		(1.3%)	

City of Birmingham, Michigan

Fiscal Year	Public Works	Percent	Capital Outlay	Percent
1993-1994	\$ 2,875,215	13.9	\$ 2,292,720	11.0
1994-1995	2,819,730	11.4	6,601,084	26.8
1995-1996	2,641,146	13.0	1,741,484	8.6
1996-1997 (2)	2,321,002	10.3	3,513,181	15.6
1997-1998	2,218,734	10.5	1,469,402	6.8
1998-1999	2,307,851	9.9	2,327,506	9.8
1999-2000	2,630,614	10.9	2,616,380	10.8
2000-2001	2,622,375	9.5	3,928,017	14.2
2001-2002	3,274,428	8.9	13,407,326	36.2
2002-2003	3,828,632	10.6	13,361,958	37.1
Percentage increase (decrease) from 2002 to 2003	16.9%		(0.3%)	

- (1) This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund.
- (2) Starting in 1997, the general government expenditures for the year ended June 30, 1998 decreased due to the retirement system administrative costs reclassified from the General Fund and charged to the Pension Trust Fund.

**General Governmental Expenditures by Function
Last Ten Fiscal Years (I) (Continued)**

Debt					
Service	Percent	Miscellaneous	Percent	Total	
\$ 636,042	3.1	\$ 43,786	0.2	\$ 19,984,833	
923,900	3.7	39,884	0.2	24,216,900	
1,915,080	9.4	57,517	0.3	19,699,026	
1,988,890	8.8	36,641	0.2	21,775,190	
2,621,919	12.4	63,581	0.3	20,361,142	
2,582,743	11.0	14,255	0.1	22,632,494	
2,647,822	10.9	26,944	0.1	23,429,712	
3,572,309	12.9	21,587	0.1	26,852,840	
3,277,603	8.9	-	-	36,989,477	
871,564	2.4	-	-	36,015,071	
(0.3%)		(73.4%)		-	

City of Birmingham, Michigan

Fiscal Year			Licenses and Permits	
	Taxes	Percent	Permits	Percent
1993-1994	\$ 10,914,260	54.0	\$ 543,564	2.7
1994-1995	11,461,089	56.3	523,070	2.6
1995-1996	13,643,969	62.4	500,245	2.3
1996-1997	13,867,464	62.6	619,728	2.7
1997-1998	14,457,595	62.5	700,883	3.0
1998-1999	15,005,521	62.5	1,098,905	4.6
1999-2000	15,197,625	61.2	1,336,388	5.4
2000-2001	16,678,578	59.3	2,028,712	7.2
2001-2002	18,166,178	65.5	1,697,747	6.1
2002-2003	16,157,523	60.8	1,554,182	5.8
Percentage increase (decrease)				
from 2002 to 2003		(11.1%)	(8.5%)	

- (1) This schedule includes revenues of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund.

**General Governmental Revenues by Source
Last Ten Years (I)**

Fines and Forfeitures		Use of Money and Property		Federal Grants	
	Percent		Percent		Percent
\$ 1,375,622	6.8	\$ 1,029,632	5.1	\$ 491,177	2.4
1,086,257	5.4	1,083,686	5.4	330,735	1.6
1,236,825	5.7	1,244,841	5.7	115,976	0.5
1,339,972	6.1	1,259,198	5.7	167,216	0.8
1,455,777	6.3	1,168,027	5.0	168,104	0.7
1,371,188	6.3	1,101,504	4.5	255,884	1.0
1,434,140	5.8	1,160,579	4.5	139,387	0.5
1,561,387	5.6	2,091,827	7.4	86,935	0.3
1,416,836	5.1	867,912	3.1	111,135	0.4
1,310,556	4.9	379,343	1.4	936,125	3.5
(7.5%)		(56.3%)		742.3%	

City of Birmingham, Michigan

Fiscal Year	Inter- governmental	Percent	Charges for Services	Percent
1993-1994	\$ 2,613,714	12.9	\$ 3,195,203	15.8
1994-1995	2,818,519	13.8	2,967,513	14.5
1995-1996	2,809,847	12.9	2,245,804	10.3
1996-1997	3,056,642	13.8	1,783,362	8.1
1997-1998	3,341,103	14.5	1,811,568	7.9
1998-1999	3,386,530	14.1	1,566,844	6.5
1999-2000	3,640,986	14.7	1,812,814	7.3
2000-2001	3,538,515	12.6	1,972,657	7.0
2001-2002	3,368,671	12.1	1,987,525	7.2
2002-2003	3,719,633	14.0	2,300,941	8.7
Percentage increase (decrease)				
from 2002 to 2003		(4.8%)	0.8%	

- (1) This schedule includes revenues of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund.

**General Governmental Revenues by Source
Last Ten Fiscal Years (I) (Continued)**

Other	Percent	Total
\$ 60,433	0.3	\$ 20,223,605
77,443	0.4	20,348,312
53,003	0.2	21,850,510
41,469	0.2	22,135,051
33,333	0.1	23,136,390
124,879	0.5	23,911,255
156,546	0.6	24,878,465
162,719	0.6	28,121,330
121,188	0.4	27,737,192
235,449	0.9	26,593,752
(25.5%)		(1.4%)

City of Birmingham, Michigan

General Governmental Tax Revenues by Source Last Ten Fiscal Years

Property Taxes

Fiscal Year	Operating	Solid Waste	425 Economic Development	Debt	Special Assessments	Total Taxes
1993-1994	\$ 8,516,060	\$ 1,522,844	\$ -	\$ 786,754	\$ 88,602	\$ 10,914,260
1994-1995	8,920,276	1,374,470	-	1,054,200	112,143	11,461,089
1995-1996	9,677,995	1,365,898	-	2,420,755	179,321	13,643,969
1996-1997	10,220,133	1,038,875	-	2,391,415	217,041	13,867,464
1997-1998	10,622,473	1,091,715	-	2,415,222	328,185	14,457,595
1998-1999	11,133,914	1,127,886	-	2,395,952	347,769	15,005,521
1999-2000	11,251,990	1,151,050	-	2,479,440	315,145	15,197,625
2000-2001	11,977,329	1,042,931	-	3,341,393	316,925	16,678,578
2001-2002	13,317,164	1,055,406	-	3,470,758	322,850	18,166,178
2002-2003	14,066,321	1,244,237	11,763	653,516	163,417	16,139,254

City of Birmingham, Michigan

Fiscal Year	Total Tax Levy (2)	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections
1993-1994	\$ 12,403,986	\$ 11,887,589	95.84	\$ 557,915
1994-1995	12,882,962	12,347,201	95.84	466,365
1995-1996	14,979,658	14,311,925	95.54	570,524
1996-1997	15,058,112	14,544,910	96.59	417,678
1997-1998	16,622,157	15,881,143	95.54	562,258
1998-1999	17,248,712	16,753,298	97.13	480,551
1999-2000 (3)	17,955,509	17,368,368	96.73	532,363
2000-2001	19,770,668	18,910,885	95.65	684,674
2001-2002	21,277,771	20,428,804	96.01	754,649
2002-2003 (4)	22,240,872	21,418,566	96.30	742,393

(1) Information not available for some years

(2) Includes library tax levy for all years

(3) Beginning in fiscal year 1999-2000, the total tax levy includes the supplemental warrant for Michigan Public Act 189 properties. These are properties that are leased from the City of Birmingham.

(4) Beginning in fiscal year 2002-2003, the total tax levy includes taxes levied against properties subject to Michigan Public Act 425 which have been conditionally transferred from Bloomfield Township to the City of Birmingham. It also includes adjustments/corrections to taxable value approved by the Board of Review, Michigan Tax Tribunal, etc.

**Property Tax Levies and Collections
Last Ten Fiscal Years**

Total Tax Collections		Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes (I)	Ratio of Delinquent Taxes to Total Tax Levy (I)
\$	12,445,504	100.33	\$ 42,700	0.34
	12,813,566	99.46	37,798	0.29
	14,882,449	99.35	-	-
	14,962,588	99.37	62,368	0.41
	16,443,401	98.92	87,396	0.53
	17,233,849	99.91	65,659	0.38
	17,900,731	99.69	95,656	0.53
	19,595,559	99.11	77,201	0.39
	21,183,453	99.56	58,755	0.28
	22,160,959	99.64	79,913	0.36

City of Birmingham, Michigan

Fiscal Year	County Equalized Valuation	State Equalized Valuation	City Assessed Valuation	Percent of True Value (1)
1993-1994	\$ 951,955,950	\$ 951,955,950	\$ 951,955,950	50
1994-1995	975,050,500	975,050,500	975,050,500	50
1995-1996 (2)	1,018,968,105	1,018,968,105	1,018,968,105	50
1996-1997 (2)	1,095,289,075	1,095,289,075	1,095,289,075	50
1997-1998 (2)	1,185,994,910	1,185,994,910	1,185,994,910	50
1998-1999 (2)	1,293,125,498	1,293,125,498	1,293,125,498	50
1999-2000 (2)	1,443,416,735	1,443,416,735	1,443,416,735	50
2000-2001 (2)	1,618,703,090	1,618,703,090	1,618,703,090	50
2001-2002 (2)	1,821,297,905	1,821,297,905	1,821,297,905	50
2002-2003 (2)	2,067,222,990	2,067,222,990	2,067,222,990	50

Note: All valuations are taken from the original warrant for each year and do not reflect any supplemental warrants or Board of Review/Tax Tribunal adjustments.

- (1) In accordance with the 1970 State of Michigan Constitution, the State Equalized Value is 50 percent of appraised or estimated value.
- (2) On March 15, 1994, the voters of the State of Michigan approved Proposal A, which includes significant changes to Section 3 of Article IX of the State Constitution. Starting in 1995, the value against which taxes will be spread has changed from assessed value to taxable value.

**Assessed Valuation History
Last Ten Fiscal Years**

Real Taxable Valuation	Personal Taxable Valuation	Total Taxable Valuation (2)	Taxable Valuation as Percentage of Assessed Valuation
N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A
\$ 947,722,890	\$ 45,004,300	\$ 992,727,190	97.4
976,196,677	47,830,300	1,024,026,977	93.5
1,028,004,614	49,488,090	1,077,492,704	90.9
1,079,245,416	50,787,690	1,130,033,106	87.4
1,140,397,208	60,363,250	1,200,760,458	83.2
1,224,105,785	59,423,980	1,283,529,765	79.3
1,312,779,883	60,179,340	1,372,959,223	75.4
1,433,723,668	58,533,820	1,492,257,488	72.2

City of Birmingham, Michigan

Fiscal Year	Charter Operating Millage	Refuse Millage	Library Millage	Debt Millage	Total City Millage	Oakland	
						County Millage	Community College Millage
1993-1994	9.32	1.60	1.28	0.83	3.71	4.95	1.05
1994-1995 (1)	9.84	1.41	1.30	0.67	13.22	4.95	0.85
1995-1996	11.49	1.37	1.29	0.93	15.08	5.28	1.65
1996-1997	11.54	1.01	1.28	0.87	14.70	5.18	1.65
1997-1998 (2)	12.29	1.01	1.28	0.85	15.43	5.15	1.65
1998-1999 (3)	12.26	1.00	1.26	0.75	15.27	4.99	1.65
1999-2000	11.66	0.96	1.58	0.75	14.95	4.98	1.63
2000-2001	11.53	0.82	1.68	1.37	15.40	4.97	1.61
2001-2002	12.02	0.77	1.64	1.06	15.49	4.96	1.60
2002-2003	11.50	0.83	1.54	1.00	14.87	5.25	1.61

Note: All rates are expressed in dollars per \$1,000 of taxable valuation. City general operating tax rate charter limit equals \$20.00 per \$1,000 of taxable valuation.

- (1) Beginning in 1994-1995, a portion of the charter operating millage is allocated to the CSO obligation Debt Service Fund (\$400,000 in 1996).
- (2) Beginning in 1997-1998, a portion of the charter operating millage is allocated to the Water Supply System Fund for water main repair and replacement.
- (3) Beginning in 1998-1999, a portion of the charter operating millage is allocated to the Sewage Disposal Fund for sewer relief projects.

General Tax Information for 2002 Tax Year

	City, Intermediate School, Community College, and One-half School Taxes, and School Debt	County and One-half School Taxes, and Transportation
Billed	July 1	December 1
Due	September 3	February 14
Delinquent	March 1	March 1
Penalty	.75% per month after September 3	3% after February 14

**Property Taxes Rates
All Direct and Overlapping Governments
Last Ten Fiscal Years**

County		School Millage		Total	
Intermediate School Millage	Total County Millage	Homestead	Non- homestead	Homestead	Non- homestead
2.13	8.13	27.85	27.85	49.01	49.01
2.13	7.93	20.24	24.00	41.39	45.15
2.13	9.06	20.07	24.00	44.21	48.14
2.13	8.96	19.77	24.00	43.43	47.66
2.13	8.93	19.01	24.00	43.37	48.36
2.12	8.76	20.01	25.67	44.04	49.70
2.10	8.71	19.70	25.45	43.36	49.11
2.08	8.66	18.90	25.45	42.96	49.51
3.45	10.01	18.48	25.45	43.99	50.96
3.42	10.28	17.75	25.45	42.90	50.60

City of Birmingham, Michigan

Principal Taxpayers Valuation as of July 31, 2003

Taxpayer	Principal Product or Service	Taxable Valuation	Percent of Taxable Valuation
Paul Johnson	Apartments, commercial	\$ 16,132,780	1.01
Fuller Central Park Prop.	Office, retail	13,711,730	0.86
Geoff Hockman & Associates	Hotel, office, residential	15,047,470	0.94
Palladium/Related Retail	Retail	14,468,420	0.90
Kroger	Retail	4,519,950	0.28
Prudential Investments	Office	4,494,080	0.28
Associates of 555	Office, retail, parking, apartments	6,308,790	0.39
Rosso Development	Office, residential, apartments	5,164,100	0.32
James Esshaki/J.P. Equities LLC	Office, retail	7,971,380	0.50
Stuart Frankel	Office, apartments	2,806,150	0.18
DTE Energy*	Electric utility	8,587,650	0.54
National City Bank	Office	3,925,990	0.25
Heron Development, LLC	Apartments	8,225,400	0.51
Mooney Oil Company	Office	4,109,830	0.26
Borders Bookstore	Retail	3,448,360	0.22
JFK Investments	Office, retail	4,226,640	0.26
Comcast Cablevision	Office	7,187,280	0.45
Singh of Birmingham	Office	2,746,500	0.17
Dart Energy Corp.	Office	3,417,850	0.21
Philip Stevens Building Co.	Office, retail	2,896,190	0.18
Total 2003 taxable valuation of 20 largest taxpayers		139,396,540	8.70
Total 2003 taxable valuation of all other taxpayers		1,462,058,539	91.30
Total 2003 taxable valuation of all taxpayers		<u>\$ 1,601,455,079</u>	<u>100.00</u>

* This taxpayer is appealing its personal property valuations.

City of Birmingham, Michigan

Special Assessment Billings and Collections Last Ten Fiscal Years

Fiscal Year	Special Assessment Billings	Special Assessments Collected (1)	Total Outstanding Special Assessments
1993-1994	\$ 731,848	\$ 911,099	\$ 656,637
1994-1995	637,638	593,466	700,809
1995-1996	597,419	758,933	586,315
1996-1997	614,829	808,285	666,350
1997-1998	746,807	895,377	767,697
1998-1999	641,398	878,497	1,054,646
1999-2000	900,514	832,875	880,415
2000-2001	747,291	1,018,786	556,064
2001-2002	752,661	1,014,242	805,862
2002-2003	742,397	856,690	634,400

(1) Includes collections of delinquent special assessments transferred to the City tax rolls

The County Delinquent Tax Revolving Fund reimburses the City 100 percent of delinquent special assessments, as well as delinquent real taxes.

City of Birmingham, Michigan

Computation of Legal Debt Margin June 30, 2003

2002 State Equalized Valuation	<u>\$ 2,067,222,990</u>
Debt limit (1) (10 percent of State Equalized Valuation) (2)	\$ 206,722,299
Debt applicable to limitation:	
Total bonded and contractual debt	65,095,109
Less deductions allowed by law - Combined sewer overflow abatement project	<u>18,931,692</u>
Net debt applicable to debt limit	<u>46,163,417</u>
Legal debt margin	<u>\$ 160,558,882</u>

(1) Debt limit set forth in Section 4A, Act 279 of 1909 (Home Rule City Act)

(2) Act No. 202, P.A. 1943 as amended by Act No. 42, P.A. 1960 (defining assessed valuation)

City of Birmingham, Michigan

Fiscal Year	Population	Assessed/Taxable Value	Gross Bonded Debt	Less Debt Service Fund (1)
1993-1994	19,997	\$ 951,955,950	\$ 24,610,000	\$ 207,701
1994-1995	19,997	975,050,500	23,425,000	63,866
1995-1996 (3)	19,997	992,727,190	44,737,200	902,830
1996-1997 (3)	19,997	1,024,026,977	40,925,980 (4)	1,385,095
1997-1998 (3)	19,997	1,077,492,704	39,058,566	1,268,285
1998-1999 (3)	19,997	1,130,033,106	37,179,729	1,143,865
1999-2000 (3)	19,997	1,200,760,458	47,615,566	1,034,733
2000-2001 (3)	19,291	1,283,529,765	46,327,562	988,854
2001-2002 (3)	19,291	1,372,959,223	49,018,903	1,225,960
2002-2003 (3)	19,291	1,492,257,488	65,095,109 (5)	10,079 (6)

(1) Amount available for repayment of general obligation bonds

(2) These amounts include the general obligation bonds that are being repaid from the Automobile Parking System Fund.

(3) On March 15, 1994, the voters of the State of Michigan approved Proposal A, which includes significant changes to Section 3 of Article IX of the State Constitution. Starting in 1995, the value against which taxes will be spread has changed from assessed value to taxable value.

(4) Beginning in fiscal year 1996-1997, this amount does not include revenue bonds or contractual obligations that are being repaid from Enterprise Funds.

(5) In fiscal year 2002-2003, general obligation bonds for Parks and Recreation were issued in the amount of \$15.7 million. Also in 2002-2003, the water revenue bonds were called.

(6) In accordance with GASB 34, several bond issues are now accounted for in the Sewage Disposal Fund rather than the Debt Service Funds. These bond issues include the 2000 Sewer Improvement bonds, the CSO obligations, the George W. Kuhn Drain bonds, and the North Arm Drain bonds.

**Ratio of Net General Obligation Bonded Debt to Assessed Value and
Net General Obligation Bonded Debt per Capital
Last Ten Fiscal Years**

Debt Payable from Enterprise Revenues (2)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
\$ 14,995,380	\$ 9,406,919	0.99	\$ 470
14,158,535	9,202,599	0.94	460
13,304,583	30,529,787	3.08	1,527
10,024,487	29,516,398	2.88	1,476
9,311,928	28,478,353	2.64	1,424
8,579,714	27,456,150	2.43	1,373
7,822,326	38,758,507	3.23	1,938
7,020,000	38,318,708	2.99	1,986
6,085,000	41,707,943	3.04	2,162
5,045,000	60,040,030	4.02	3,112

City of Birmingham, Michigan

Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt (1) to Total General Governmental Expenditures Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
1993-1994	\$ 200,990	\$ 433,470	\$ 634,460	\$ 20,750,232	3.06
1994-1995	348,155	575,745	923,900	24,709,742	3.74
1995-1996	540,824	1,374,256	1,915,080	20,269,395	9.45
1996-1997	531,122	1,457,768	1,988,890	22,541,813	8.82
1997-1998	1,154,855	1,464,064	2,618,919	21,214,386	12.35
1998-1999	1,146,623	1,433,543	2,580,166	23,422,828	11.02
1999-2000	1,022,000	1,398,258	2,420,258	24,190,887	10.00
2000-2001	1,644,451	1,907,780	3,552,231	27,741,374	12.80
2001-2002	1,557,567	1,716,041	3,273,608	37,829,642	8.65
2002-2003 (3)	1,522,332	2,054,692	3,577,024	36,881,249	9.70

- (1) General obligation bonds reported in the Enterprise Funds with government commitment have been excluded.
- (2) This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund.
- (3) Beginning in fiscal year 2002-2003, the Debt Service Funds are no longer used to record the debt service expenditures for the CSO Obligations, the George W. Kuhn Drain bonds, and the 2000 Sewer Improvement bonds. According to GASB 34, these payments are now being recorded in the Sewage Disposal Fund. As a result of the debt service payments being tax supported, they are included in the principal and interest amounts above.

City of Birmingham, Michigan

Computation of Direct and Overlapping Bonded Debt General Obligation Bonds June 30, 2003

Jurisdiction	Net General Obligation Bonded Debt Outstanding	Percent Applicable to Government	Amount Applicable to Government
Direct - City of Birmingham	\$ 60,117,108 (1)	100.00	\$ 60,117,108
Overlapping			
Birmingham School District	109,115,000	39.60	43,209,540
Oakland County	76,893,544	2.94	2,260,670
Oakland County Intermediate School District	350,000	2.95	10,325
Oakland County Community College	<u>12,895,000</u>	2.96	<u>381,692</u>
Total overlapping debt	<u>199,253,544</u>		<u>45,862,227</u>
Total direct and overlapping debt	<u>\$ 259,370,652</u>		<u>\$ 105,979,335</u>

(1) See "Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt per Capita" (also in this section) for calculation of this amount.

City of Birmingham, Michigan

Revenue Bond Coverage Water Fund Last Ten Fiscal Years

Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1993-1994	\$ 1,745,014	\$ 1,679,205	\$ 65,809	\$ -	\$ -	\$ -	-
1994-1995	2,183,523	1,600,147	583,376	200,000	64,025	264,025	2.21
1995-1996	2,448,564	1,535,943	912,621	200,000	115,550	315,550	2.89
1996-1997	2,414,831	1,406,708	1,008,123	200,000	103,050	303,050	3.33
1997-1998	2,402,501	1,742,852	659,649	200,000	94,300	294,300	2.24
1998-1999	2,776,298	1,944,221	832,077	200,000	86,500	286,500	2.90
1999-2000	2,508,952	1,773,321	735,631	200,000	78,500	278,500	2.64
2000-2001	2,207,898	1,635,065	572,833	200,000	70,000	270,000	2.12
2001-2002	2,633,119	1,928,922	704,197	200,000	61,500	261,500	2.69
2002-2003 (3)	2,702,271	2,443,291	258,980	1,400,000	52,750	1,452,750	N/A

(1) Total operating revenues

(2) Total operating expenses exclusive of depreciation and amortization

(3) Revenue bonds were called; outstanding principal balance of \$1,400,000 paid in full June 2003

City of Birmingham, Michigan

Demographic Statistical Data Last Ten Fiscal Years

Fiscal Year	Population (2)	Average Income Per Household (1)	Median Age (2)	Number of Households (1)	School Enrollment (3)	Unemploy- ment Rate (Percent) (4)
1993-1994	19,997	\$ 57,573	37	9,084	7,485	2.5
1994-1995	19,997	*	37	9,084	*	2.1
1995-1996	19,997	*	37	9,307	*	1.9
1996-1997	19,997	65,649	37	9,307	*	1.6
1997-1998	19,997	*	37	9,383	*	1.4
1998-1999	19,997	78,998	37	9,383	7,530	1.4
1999-2000	19,997	*	37	9,371	7,655	1.1
2000-2001	19,291	80,861	39	9,131	7,761	1.9
2001-2002	19,291	*	39	9,241	7,743	2.5
2002-2003	19,291	*	39	9,310	7,835	2.5

(1) Southeastern Michigan Council of Governments

(2) U.S. Census Bureau. Data for years 1993-2000 is as of 1990. Data for 2001 and 2002 is as of 2000.

(3) Birmingham Community Schools - Public schools only

(4) Michigan Employment Security Commission/Agency. Data for fiscal years 2000-2003 is from Michigan Department of Career Development (MDCD) Office of Labor Market. Information is as of April each year.

* Information is not available for some years. Birmingham is too small to be included in most tables that list detailed data. Nearly all detailed tables are for cities with populations of 25,000 or more.

City of Birmingham, Michigan

Property Value, Construction, and Bank Deposits Last Ten Fiscal Years

Fiscal Year	Construction		Bank Deposits (1) \$(000)	Property Value (Assessed)		
	Number of Units	Value		Commercial	Industrial	Residential
1993-1994	694	\$ 26,050,812	\$ 672,531	\$ 238,555,450	\$ 18,102,800	\$ 695,297,700
1994-1995	743	26,242,249	576,985	256,146,600	19,273,500	699,630,400
1995-1996	722	23,292,296	668,114	249,702,050	19,032,720	750,223,335
1996-1997	778	29,758,769	731,570	265,068,555	18,783,960	811,436,560
1997-1998	836	40,068,922	726,385	286,716,510	19,890,050	879,388,350
1998-1999	921	58,680,622	738,262	292,653,090	16,543,970	983,928,438
1999-2000	844	43,450,820	772,297	305,236,350	20,294,820	1,117,885,565
2000-2001	866	76,939,552	782,878	315,509,990	22,266,580	1,280,926,520
2001-2002	826	62,541,870	851,298	330,017,200	22,456,240	1,468,824,465
2002-2003	849	58,216,724	948,028	374,838,960	23,555,950	1,668,828,080

(1) The deposit information is from FDIC data contained in Branch Directory and Summaries of Deposits; Decision Research Sciences; Ambler, Pennsylvania. For 1992, deposit information was obtained from data contained in the 1992 Branches of Michigan, Sheshunoff. 1998 and 1999 deposit information was obtained from the Bank & Thrift Branch Office Data Book, Central Region, 1997 and 1998, respectively. The 2000-2003 deposit information was from www.fdic.gov FDIC/OTS Summary of Deposits (data as of June 30, 1999, June 30, 2000, June 30, 2001, and June 30, 2002, respectively).

City of Birmingham, Michigan

Miscellaneous Statistical Data

Original Incorporation	January 8, 1864	Village Form
Second Charter	June 2, 1885	Village Form
Third Charter	1917	Manager, Trustee Form
First City Charter	1927	Commission Form
Current Home Rule City Charter	April 3, 1933	Manager, Commission Form

Area incorporated - 4.73 square miles

Streets and Alleys

Miles of streets:	84.32
Major	21.87
Local	62.45
Sidewalks in miles	128.69
Bridges	9

Water Distribution System

Customers	8,277
Meters	8,522
Miles of water mains	100.24
Fire hydrants:	
City-owned	763
Privately owned	2
Total number of line gate valves	1259
Storage tanks; 500,000 gal. each	2

Building Data

2002-2003 building permits	849
2002-2003 construction value	\$58,216,724

Sewage Collection System

Miles of sanitary sewers	117
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2003-2004 Fire Protection (Budgeted Positions)

Stations	2
Regular firemen	35
Volunteers	10

Parking System

Parking structures	5
Parking-metered spaces	1,252
Total public parking spaces	4,840

2003-2004 Police Protection (Budgeted Positions)

Precincts	1
Regular police	33
Auxiliary	16

Election Data

Registered voters, 2002	16,590
Votes cast, election 11/2002	2,570
Percent voting	15%
Registered voters, 2003	16,295

2003-2004 Number of Budgeted Employees

Full-time personnel	186
Part-time personnel	75

Library 2002-2003

Registered patrons	36,477
Book collections	135,203
Audiovisual collections	50,230
Items circulated	386,488
Reference questions	78,644
Patron visits	287,336
Circulation per capita (1)	12.6
Program attendance	13,450
Computer resource usage	605,787

Population Data

1970 federal census	26,170
1980 federal census	21,689
1990 federal census	19,997
2000 federal census	19,291

(1) Based on population for the service area of the library: Birmingham, Beverly Hills, and Bingham Farms

City of Birmingham, Michigan

Federal Awards Supplemental Information June 30, 2003

City of Birmingham, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Commission
City of Birmingham, Michigan

We have audited the basic financial statements of the City of Birmingham, Michigan for the year ended June 30, 2003 and have issued our report thereon dated September 26, 2003. Those basic financial statements are the responsibility of the management of the City of Birmingham, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Birmingham, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 26, 2003

Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements

To the Honorable Mayor and City Commission
City of Birmingham, Michigan

We have audited the financial statements of the City of Birmingham, Michigan as of and for the year ended June 30, 2003 and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Birmingham, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Birmingham, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Honorable Mayor and City Commission
City of Birmingham, Michigan

This report is intended solely for the information and use of the City Commission, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 26, 2003

Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

To the Honorable Mayor and City Commission
City of Birmingham, Michigan

Compliance

We have audited the compliance of the City of Birmingham, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. The major federal program of the City of Birmingham, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Birmingham, Michigan's management. Our responsibility is to express an opinion on the City of Birmingham, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Birmingham, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Birmingham, Michigan's compliance with those requirements.

In our opinion, the City of Birmingham, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

To the Honorable Mayor and City Commission
City of Birmingham, Michigan

Internal Control Over Compliance

The management of the City of Birmingham, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Birmingham, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Commission, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 26, 2003

City of Birmingham, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through County of Oakland, Michigan - Community Development Block Grant:				
Program year 2000	14.228	899262-60011-2400A	\$ 17,562	\$ 12,274
Program year 2001	14.228	800262-60011-2400	45,429	28,428
Program year 2002	14.228	802262-60010-3384	45,429	<u>22,074</u>
Total U.S. Department of Housing and Urban Development				62,776
U.S. Department of Justice:				
Federal Forfeiture of Property Program	16.unknown	N/A	32,961	32,961
Bureau of Justice Assistance - Bulletproof Vest Partnership Grant	16.607	N/A	19,280	<u>19,280</u>
Total U.S. Department of Justice				52,241
U.S. Environmental Protection Agency - Passed through County of Wayne, Michigan - Rouge River National Wet Weather Demonstration Project:				
Quarton Lake Restoration Round One	66.463	XP995743-04-W17	250,000	21,327
Quarton Lake Restoration Round Two	66.463	Round IIb - 25	834,500	<u>653,071</u>
Total U.S. Environmental Protection Agency				674,398
Federal Emergency Management Agency - Passed through Michigan Department of State Police:				
Sewer Backup Pilot Prevention Grant	83.548	FEMA-1181-DR-MI	450,000	49,980
Floodwall Parking Lot #6	83.548	FEMA-1226.022-DR-MI	330,000	14,999
Emergency Management Performance Grant	83.552	N/A	11,438	<u>11,438</u>
Total Federal Emergency Management Agency				76,417
U.S. Department of Transportation - Passed through the Michigan Department of Transportation - Transportation Enhancement Grant	20.205	STP 0263(012)	80,000	<u>80,000</u>
Total federal awards				<u>\$ 945,832</u>

City of Birmingham, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 936,125
Add federal revenue reported in sewage disposal revenue	144,341
Less reimbursement revenue recorded in current year for expenditures incurred previously:	
Quarton Lake Restoration	(100,130)
Bulletproof Vest Partnership Grant	(739)
Sewer Backup Pilot Prevention Grant	(11,412)
Floodwall Parking Lot #6	(34,324)
Add expenditures waiting reimbursement - Federal forfeitures	<u>11,971</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 945,832</u>

City of Birmingham, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Birmingham, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Birmingham, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program(s):

CFDA Number	Name of Federal Program or Cluster
66.463	U.S. Environmental Protection Agency - Rouge River National Wet Weather Demonstration Project

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

City of Birmingham, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None